THE CONGRESSIONAL BUDGET OFFICE'S LONG–TERM BUDGET OUTLOOK

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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THE CONGRESSIONAL BUDGET OFFICE'S LONG–TERM BUDGET OUTLOOK

THURSDAY, SEPTEMBER 26, 2013

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:05 a.m. in room 210, Cannon House Office Building, Hon. Paul Ryan [chairman of the committee] presiding.

Present: Representatives Paul of Wisconsin, Price, Garrett, Campbell, Cole, McClintock, Lankford, Ribble, Flores, Rokita, Woodall, Blackburn, Nunnelee, Hartzler, Messer, Rice, Williams, Van Hollen, Yarmuth, Pascrell, Ryan of Ohio, Castor, McDermott, Lee, Cicilline, Jeffries, Pocan, Lujan Grisham, Huffman, Cardenas, Blumenauer, and Schrader.

Chairman RYAN. The hearing will come to order. I know we still have our caucuses and our conferences are going on, so I understand some of our members will be here a little later, but we want to get started so we can start as close to on time as we possibly can.

I want to thank everybody, and welcome. It has been a little while since we have gotten back together as a committee to see these things, but we have a new report that is worthy of our attention.

It is good to see our CBO Director Doug Elmendorf once again.

And I want to thank you, Doug, and your staff for putting together this very important and valuable report. I know what kind of work it takes, and we appreciate that.

We want to put it to good use because, as I read it, your report makes one thing clear. We haven't solved the problem yet. We still are spending too much money. Just look at the numbers. Our total debt is bigger than our economy, and according to your report, our publicly held debt as a share of our economy is higher than at any point in the U.S. history, except for a brief period around World War II. Some seem to think that just because the deficit is not $1 trillion anymore, we don't have to worry, problem solved.

But we know better. In 2008, our publicly held debt was 39 percent of gross domestic product. Today, it is 73 percent. In other words, it has doubled in just 5 years. So today if we were to have an emergency, we will have a lot less leeway.

When you owe more than you make, your creditors get antsy. Sooner or later they cut you off. The problem is, they could cut us off at exactly the wrong time.

We have heard a lot of talk these days about how we need to pay our bills, but we need to make sure that we can pay our bills today and tomorrow. Look, we know what is driving our debt. It is spending, especially spending on health care. CBO says that most of the spending growth in the near future will be in Medicare, Medicaid, and the Affordable Care Act. In the next 25 years, it expects spending on health care programs to grow by 74 percent or maybe as much as 83 percent. And yet all of this spending, for all of this spending, what are we getting for it? The Medicare Trust Fund will go broke in just 10 years. That is after payrolls went up, after the health care law made cuts to the program, and after the sequester made even more cuts. All of these adjustments, especially the health care law, were supposed to patch the hole, but instead we took on more water.

Clearly, a little tinkering isn't enough. We need a whole new approach. Your report says that the debt is too high, and the sooner we get to work, the better. That is a really important point here. You have looked at the spending package that would have saved $4 trillion over 10 years, which is roughly what the House-passed budget would do. If we enacted such a law, a $4 trillion spending package, interest rates would be 1 percent lower in 2038; our economy would be 7 percent bigger; and our publicly held debt would be just over 31 percent of GDP. But if we stayed on the current path, interest rates would rise; our debt would grow; and our economy would be 4 percent smaller in 2038.

What does that mean? That means about $3,200 less per person in America at that time. I think the best illustration of our problem is what you call the fiscal gap. What would it take in spending cuts, tax hikes or both just to keep our debt stabilized? If we took action now, it would cost us roughly $145 billion per year, but if we waited, it could cost us up to $350 billion per year. We have got one foot on each side of a crater, and every day we wait, the gap grows larger. Every day we wait, it gets harder to bridge that gap.

Washington's motto is never do today what you can put off until tomorrow, but tomorrow is a whole lot closer than we think, and we know what the answer is. We know that with real reforms, we cannot only pay down the debt, we can help grow the economy and put people back to work. It is not a matter of ability. It is a matter of will.

And with that, I would like to recognize the ranking member for his opening remarks.

[The prepared statement of Chairman Ryan follows:]

PREPARED STATEMENT OF HON. PAUL RYAN, CHAIRMAN, COMMITTEE ON THE BUDGET

Thanks, everybody—and welcome. It's good to see our friend, Director Elmendorf, once again. I want to thank him and his staff for putting together this report. We appreciate your hard work. And we'll put it to good use—because, as I read it, your report makes one thing clear: We haven't solved the problem. We're still spending too much money.

Just look at the numbers. Our total debt is bigger than our economy. And according to your report, our publicly held debt—as a share of our economy—"is higher than at any point in U.S. history except a brief period around World War II." Some seem to think that just because the deficit isn't $1 trillion anymore, we don't have to worry. Problem solved.

But we know better. In 2008, our publicly held debt was 39 percent of GDP. Today, it's 73 percent. In other words, it doubled in just five years. So today—if we have an emergency—we have a lot less leeway. When you owe more than you make, your creditors get antsy. Sooner or later, they cut you off. The problem is, they could cut us off—at exactly the wrong time. We've heard a lot of talk these days about how we need to pay our bills. But we need to make sure we can pay our bills both today—and tomorrow.

Look, we know what's driving our debt. It's spending—especially spending on health care. CBO says most of the spending growth in the near future will be in Medicare, Medicaid, and the Affordable Care Act. In the next 25 years, it expects spending on health-care programs to grow by 74 percent—or maybe even as much as 83 percent.

And yet for all this spending, what are we getting for it? The Medicare trust fund will go broke in just over ten years. That's after payroll taxes went up, after the health-care law made cuts to the program, and after the sequester made even more cuts. All these adjustments—especially the health-care law—were supposed to patch the hole. But instead, we took on more water. Clearly, a little tinkering isn't enough. We need a whole new approach.

Your report says our debt is too high. And the sooner we get to work, the better. You looked at a spending package that would save $4 trillion over ten years—which is roughly what the House budget would do. If we enacted such a law, interest rates would be one percentage point lower in 2038. Our economy would be 7 percent bigger. And our publicly held debt would be just 31 percent of GDP. But if we stayed on the current path, interest rates would rise. Our debt would grow. And our economy would be 4 percent smaller in 2038. That comes out to about $3,200 less per person.

I think the best illustration of our problem is what you call the "fiscal gap." What would it take—in spending cuts, tax hikes, or both—just to keep our debt stable? If we took action now, it would cost us roughly $145 billion per year. But if we waited, it could cost us up to $350 billion per year. We've got one foot on each side of a crater. And every day we wait, the gap grows larger. Every day we wait, it gets harder to bridge the gap.

Washington's motto is "Never do today what you can put off till tomorrow." But tomorrow is closer than we think. And we know what the answer is. We know that with real reforms we can not only pay down the debt—we can help grow the economy and put people back to work. It's not a matter of ability. It's a matter of will.

And with that, I recognize the ranking member for his opening remarks.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

And I want to join the chairman in thanking you, Dr. Elmendorf, for this report which looks at the budget picture out until the year 2035, and clearly demonstrates that, on our current trajectory, we are on an unsustainable path with respect to the debt.

It indicates that we need to move forward on two fronts, in my view. First, we have got to act now to kick our economy into higher gear, to put more Americans back to work. And there are a number of steps we need to take to do that, but an earlier CBO study and letter also indicated that one way we can do that is to replace the sequester that is in place right now, which you indicated earlier would cost us hundreds of thousands of jobs between now and this time next year. That is a self-inflicted wound. That is a wound that this country cannot afford. More people could be put to work if we take care of that issue.

Democrats in the House have now tried eight times simply to get a vote on our plan to replace the sequester. This Congress we have not seen a single plan put forward by our Republican colleagues to do that. So let's work together to replace it in a way that achieves the same amount of deficit reduction or more without the self-inflicted wound of hundreds of thousands fewer jobs. We can do that now.

We also should act now to put in place a plan to address the long-term deficit challenge, and in my view, we should adopt the

kind of frameworks recommended by every bipartisan group that has looked at this issue in recent times. Not adopt every particular recommendation, but their overall framework in terms of making cuts but also cuts to tax breaks for very wealthy individuals and special interests.

The House Democratic budget, the President's budget, all those budgets take that kind of balanced approach. We had hoped that we would be able to go to a budget conference to try and resolve some of the differences between the House Republican budget and our budget. That is the way you deal with the long-term challenge.

We have tried time and again to have conferees appointed, and obviously, the clock has been run out. And the Speaker refused to even allow us to go to conference to try to reach a compromise and negotiate these issues.

So let's move forward. Unfortunately, right now, in the House, we are focused on something very different than solving this long-term challenge. We have got before us now a proposal that would shut down the government if we don't shut down the Affordable Care Act, the Affordable Care Act, which is already providing help and health protections to millions of Americans and will provide millions more with access to affordable health care in the days to come.

But right now, the position our Republican colleagues, unfortunately, have taken is that we are going to shut down the government if we don't accomplish the goal of shutting down the Affordable Care Act. And what is even more troubling is it appears that they are going to double down on that strategy with respect to the debt ceiling, with respect to whether or not this country pays its bills on time. And they are going to say that we are not going to pay our bills on time in the United States of America, unless we shut down the Affordable Care Act for 1 year. That is irresponsible and reckless, given the impact that not paying our bills would have on the economy.

And, finally, Mr. Chairman, I just have to point out an incredible irony. The Congressional Budget Office has pointed out the Affordable Care Act will actually reduce the deficit by billions of dollars over the next 10 years and even more over the next 20 years. So to tie the defunding of the Affordable Care Act to the debt ceiling is to say, well, we are going to attach something that will increase the debt to a provision on the debt ceiling. And this was recognized by our Republican colleagues in their budget. I think many people have forgotten that if you look at the Republican budget, it only balances in 10 years because they kept major parts of the Affordable Care Act. They kept all the Medicare savings. And they have the same level of revenues as the Affordable Care Act in their budget.

You don't have to take my word for it. Here is a quote from the Heritage Foundation: Quote, Perhaps the biggest shortcoming of this House Republican budget is that it keeps the tax increases associated with Obamacare. In fact, the budget would not be in balance, the Republican budget would not be in balance in 10 years if not for the Medicare savings in the Affordable Care Act and the fact that you have the same amount of revenues. So it is saying two very different things at once, trying to have it both ways to say

you are going to balance your budget and you are going to get rid of Obamacare, when you rely on Obamacare to balance your budget.

So let's focus on the real issues here, Mr. Chairman, and the issues in this report.

And I appreciate the time.

And again, welcome, Dr. Elmendorf.

[The prepared statement of Mr. Van Hollen follows:]

PREPARED STATEMENT OF HON. CHRIS VAN HOLLEN, RANKING MEMBER, COMMITTEE ON THE BUDGET

Thank you, Mr. Chairman. And I want to join the Chairman in thanking you, Dr. Elmendorf, for this report, which looks at the budget picture out until the year 2035 and clearly demonstrates that on our current trajectory, we're on an unsustainable path with respect to the debt. It indicates that we need to move forward on two fronts, in my view.

First, we've got to act now to kick our economy into higher gear, to put more Americans back to work. And there are a number of steps we need to take to do that, but an earlier CBO study and letter also indicated that one way we can do that is to replace the sequester that's in place right now, which you indicated earlier would cost us hundreds of thousands of jobs between now and this time next year. That's a self-inflicted wound. That's a wound that this country cannot afford. More people could be put to work if we take care of that issue.

Democrats in the House have now tried eight times simply to get a vote on our plan to replace the sequester. This Congress, we've not seen a single plan put forward by our Republican colleagues to do that. So let's work together to replace it in a way that achieves the same amount of deficit reduction or more without the self-inflicted wound of hundreds of thousands fewer jobs. We can do that now.

We also should act now to put in place a plan to address the long-term deficit challenge, and in my view we should adopt the kind of framework recommended by every bipartisan group that's looked at this issue in recent times. Not adopt every particular recommendation, but their overall framework in terms of making cuts but also cuts to tax breaks for very wealthy individuals and special interests.

The House Democratic budget, the President's budget, all those budgets take that kind of balanced approach. We had hoped that we would be able to go to a budget conference to try and resolve some of the differences between the House Republican budget and our budget. That's the way you deal with the long-term challenge. We've tried time and again to have conferees appointed, and obviously the clock has been run out—and the Speaker refused to even allow us to go to conference to try to reach a compromise and negotiate these issues. So, let's move forward.

Unfortunately right now in the House we're focused on something very different than solving this long-term challenge. We've got before us now a proposal that would shut down the government if we don't shut down the Affordable Care Act. The Affordable Care Act, which is already providing help and health protections to millions of Americans, and will provide millions more with access to affordable health care in the days to come. But right now the position our Republican colleagues unfortunately have taken is that we're going to shut down the government if we don't accomplish the goal of shutting down the Affordable Care Act.

And what is even more troubling is it appears that they're going to double down on that strategy with respect to the debt ceiling, with respect to whether or not this country pays its bills on time. And they're going to say we're not going to pay our bills on time, in the United States of America, unless we shut down the Affordable Care Act for one year. That is irresponsible and reckless given the impact that not paying our bills would have on the economy.

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You don't have to take my word for it. Here is a quote from the Heritage Foundation: 'Perhaps the biggest shortcoming of this budget is it keeps the tax increases associated with Obamacare.' In fact, the budget would not be in balance—the Republican budget would not be in balance in 10 years if not for the Medicare savings in the Affordable Care Act and the fact you have the same amount of revenues. So, it is saying two very different things at once, trying to have it both ways, to say you're going to balance your budget and you're going to get rid of Obamacare when you rely on Obamacare to balance your budget.

So let's focus on the real issues here, Mr. Chairman, and the issues in this report. I appreciate the time and again, welcome Dr. Elmendorf.

Chairman RYAN. Clearly, we see things differently.

Dr. Elmendorf, the floor is yours.

STATEMENT OF DOUGLAS W. ELMENDORF, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. ELMENDORF. Thank you, Mr. Chairman and Congressman Van Hollen.

To all the members of the committee, I am very pleased to be back with you again today.

The bottom line of CBO's long-term budget outlook this year is the same as it was last year. The Federal budget is on a course that cannot be sustained indefinitely. In our extended baseline, which largely follows current law, we project that Federal debt held by the public would rise from 73 percent of GDP today, already very high by historical standards, to 100 percent of GDP in 25 years, even without accounting for the harmful effects of rising debt.

The deficit has shrunk dramatically during the past few years, from nearly 10 percent of GDP in 2009 to about 4 percent this year, and we expect, under current law, the deficit will decline further in the next few years to about 2 percent of GDP.

After that respite, however, we project the deficits would begin growing again. Federal spending would be pushed up by rising interest payments on the Federal debt and by growing costs for Social Security and the major health care programs, Medicare, Medicaid, and subsidies to be provided through insurance exchanges.

Interest payments on the debt would rise as interest rates rebound from their current unusually low levels. In particular, with debt so large, the increase in interest rates that we expect would have a very large effect on interest payments by the Federal Government.

Projected spending for Social Security increases relative to GDP in our extended baseline, principally because of the retirement of the Baby Boom generation, which would increase the number of people eligible for Social Security by more than one-third during the next 10 years alone.

Spending for the major health care programs would increase for three reasons. First, because of retirement of the Baby Boomers; second, because of rising health care costs per person; and, third, because of the expansion of Federal subsidies for health insurance.

Meanwhile, projected Federal spending for all other programs put together declines sharply relative to GDP in our extended baseline. This category of all other spending has averaged about 11 percent of GDP during the past 40 years. It is currently about 10 percent of GDP, although below the 40-year average, and would fall to about 7 percent of GDP by the end of the decade in 2038.

By 2020, under current law, Federal spending apart from Social Security, the major health care programs and interest payments would be a smaller percentage of GDP than at any time since the 1930s. Thus, the upward pressure on Federal spending relative to the size of the economy does not come from general growth in the size of the government but instead from growth in just a handful of large programs—Social Security, Medicare, and Medicaid—and from rising interest costs on the Federal debt.

Federal revenues would also increase over time under current law but more gradually than Federal spending. Revenues have averaged 17.5 percent of GDP during the past 40 years. They are now a little lower but will rise to 18.5 percent by 2023 and nearly 20 percent by 2038 under our extended baseline. The gap between Federal spending and revenues would widen steadily after 2015. By 2038, under our extended baseline, the deficit would be 6.5 percent of GDP, and Federal debt held by the public would be 100 percent of GDP, even before we account for the economic effects of that increase in debt. That would be more than any year except 1945 and 1946. With such large deficits, debt would be growing faster than GDP, a path that could not be sustained indefinitely.

In our report, we separately project how the economic consequences of the policies that underlie the extended baseline would affect the long-term budget outlook. The growth in debt would reduce the Nation's output and raise interest rates relative to what they would otherwise be in the long run, which in turn would lead to wider budget deficits. With those effects included, debt under the extended baseline would rise to 108 percent of GDP in 2038.

Debt that is so large relative to our annual output would in the long term reduce output and income relative to what they would be if debt were closer to its historical average percentage of GDP. Debt that is so large would also require higher interest payments, would reduce your flexibility to use policy to respond to unexpected developments, and increase the risk of a fiscal crisis.

In addition, our report shows the effects of some alternative sets of fiscal policies, some that would produce larger deficits than under current law and some that would produce smaller deficits. The report also examines the uncertainty of long-term budget projections, which is substantial, but our analysis shows that under a wide range of possible assumptions about some key factors, the budget is on an unsustainable path.

As lawmakers consider changes in policies that would put the Federal budget on a more sustainable course, you will face choices about the magnitude of deficit reduction, the policies to use in reducing deficits, and the timing of deficit reduction. Economic analysis does not say what the optimal amount of Federal debt is nor what the right amounts of Federal spending and revenues are, but a significant reduction in debt from its current percentage of GDP would require substantial changes in tax policies, spending policies or both.

As an illustration, if you wanted to bring debt down to 31 percent of GDP in 2038, a little below its 40-year average, using policies that phased in over the next decade, you would need to enact a combination of increases in revenues and cuts in spending rel-

ative to current law totaling about $4 trillion during the coming decade.

In deciding how quickly to reduce the deficit, you face difficult tradeoffs again. Waiting to cut Federal spending or increase taxes would lead to a greater accumulation of debt and increase the size of the policy adjustments needed to achieve any chosen debt target. However, implementing spending cuts or tax increases quickly would weaken the economic expansion.

The negative short-term effects of deficit reduction on output and employment would be especially large now because output is so far below its potential or maximum sustainable level that the Federal Reserve is holding interest rates very close to zero and could not lower them further to offset the impact of changes in tax and spending policies.

Thank you very much. I am happy to try to answer your questions.

[The prepared statement of Douglas Elmendorf follows:]

PREPARED STATEMENT OF DOUGLAS W. ELMENDORF, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Chairman Ryan, Congressman Van Hollen, and Members of the Committee, thank you for inviting me to testify on the Congressional Budget Office's (CBO's) most recent analysis of the long-term outlook for the budget and the economy. My statement summarizes the report The 2013 Long-Term Budget Outlook, which CBO released last week.

Between 2009 and 2012, the federal government recorded the largest budget deficits relative to the size of the economy since 1946, causing federal debt to soar.

Federal debt held by the public is now about 73 percent of the economy's annual output, or gross domestic product (GDP). That percentage is higher than at any point in U.S. history except a brief period around World War II, and it is twice the percentage at the end of 2007. If current laws generally remained in place, federal debt held by the public would decline slightly relative to GDP over the next several years, CBO projects. After that, however, growing deficits would ultimately push debt back above its current high level. CBO projects that federal debt held by the public would reach 100 percent of GDP in 2038, 25 years from now, even without accounting for the harmful effects that growing debt would have on the economy (see Figure 1). Moreover, debt would be on an upward path relative to the size of the economy, a trend that could not be sustained indefinitely.

BUDGET PROJECTIONS FOR THE NEXT 10 YEARS

The economy's gradual recovery from the 2007—2009 recession, the waning budgetary effects of policies enacted in response to the weak economy, and other changes to tax and spending policies have caused the deficit to shrink this year to its smallest size since 2008: roughly 4 percent of GDP, compared with a peak of almost 10 percent in 2009. If current laws governing taxes and spending were generally unchanged—an assumption that underlies CBO's 10-year baseline budget projections—the deficit would continue to drop over the next few years, falling to 2 percent of GDP by 2015. As a result, by 2018, federal debt held by the public would decline to 68 percent of GDP.[1]

However, budget deficits would gradually rise again under current law, CBO projects, mainly because of increasing interest costs and growing spending for Social Security and the government's major health care programs (Medicare, Medicaid, the Children's Health Insurance Program, and subsidies to be provided through health

[1] For details about CBO's most recent 10-year baseline, see Congressional Budget Office, Updated Budget Projections: Fiscal Years 2013 to 2023 (May 2013), *www.cbo.gov/publication/44172*. In July 2013, the Bureau of Economic Analysis (BEA) revised upward the historical values for GDP; CBO extrapolated those revisions for this report when projecting outcomes as a percentage of future GDP. Although CBO's projections of revenues, outlays, deficits, and debt over the 2013—2023 period have not changed since the baseline projections issued in May, those amounts measured as a percentage of GDP are now lower as a result of BEA's revisions. In this testimony, budgetary values presented as a percentage of GDP have been rounded to the nearest one-half percent.

insurance exchanges). CBO expects interest rates to rebound in coming years from their current unusually low levels, sharply raising the government's cost of borrowing. In addition, the pressures of an aging population, rising health care costs, and an expansion of federal subsidies for health insurance would cause spending for some of the largest federal programs to increase relative to GDP. By 2023, CBO projects, the budget deficit would grow to almost 3½ percent of GDP under current law, and federal debt held by the public would equal 71 percent of GDP and would be on an upward trajectory.

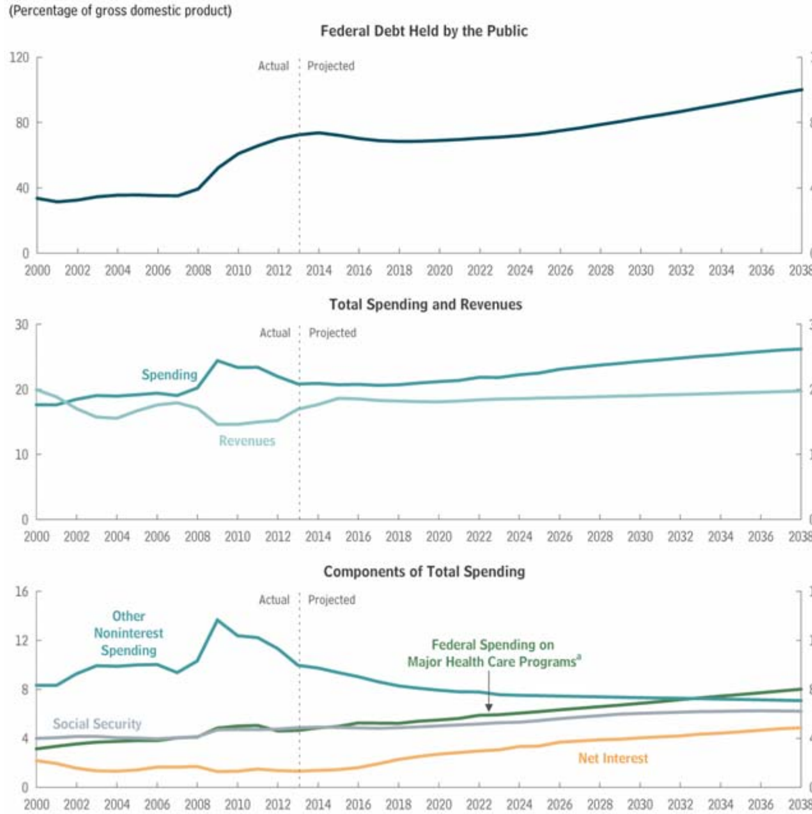
BUDGET PROJECTIONS FOR THE LONG TERM

Looking beyond the 10-year period covered by its regular baseline projections, CBO produced an extended baseline that extrapolates those projections through 2038 (and, with even greater uncertainty, through later decades).

Figure 1.

Debt, Spending, and Revenues Under CBO's Extended Baseline

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Notes: The extended baseline generally adheres closely to current law, following CBO's 10-year baseline budget projections through 2023 and then extending the baseline concept for the rest of the long-term projection period. These projections do not reflect the economic effects of the policies underlying the extended baseline.

These data reflect recent revisions by the Bureau of Economic Analysis to estimates of GDP in past years and CBO's extrapolation of those revisions to projected future GDP.

a. Spending on Medicare (net of offsetting receipts), Medicaid, the Children's Health Insurance Program, and subsidies offered through new health insurance exchanges.

Under the extended baseline, budget deficits would rise steadily and, by 2038, would push federal debt held by the public close to the percentage of GDP seen just

after World War II—even without factoring in the harm that growing debt would cause to the economy.

By 2038, CBO projects, federal spending would increase to 26 percent of GDP under the assumptions of the extended baseline, compared with 22 percent in 2012 and an average of 20½ percent over the past 40 years.

That increase reflects the following projected paths for various types of federal spending if current laws generally remain in place:

- Federal spending for the major health care programs and Social Security would increase to a total of 14 percent of GDP by 2038, twice the 7 percent average of the past 40 years.
- In contrast, total spending on everything other than the major health care programs, Social Security, and net interest payments would decline to 7 percent of GDP, well below the 11 percent average of the past 40 years and a smaller share of the economy than at any time since the late 1930s.
- The federal government's net interest payments would grow to 5 percent of GDP, compared with an average of 2 percent over the past 40 years, mainly because federal debt would be much larger.

Federal revenues would equal 19½ percent of GDP by 2038 under current law, CBO projects, compared with an average of 17½ percent over the past four decades. Revenues are projected to rise from 15 percent of GDP last year to 17½ percent in 2014, spurred by the ongoing economic recovery and changes in provisions of tax law (including the expiration of lower income tax rates for high-income people, the expiration of a temporary cut in the Social Security payroll tax, and the imposition of new taxes). After 2014, revenues would increase gradually relative to GDP, largely because growth in income beyond that attributable to inflation would push taxpayers into higher income tax brackets over time.

The gap between federal spending and revenues would widen steadily after 2015 under the assumptions of the extended baseline, CBO projects. By 2038, the deficit would be 6½ percent of GDP, larger than in any year between 1947 and 2008, and federal debt held by the public would reach 100 percent of GDP, more than in any year except 1945 and 1946. With such large deficits, federal debt would be growing faster than GDP, a path that would ultimately be unsustainable.

Incorporating the economic effects of the federal policies that underlie the extended baseline worsens the long-term budget outlook. The increase in debt relative to the size of the economy, combined with an increase in marginal tax rates (the rates that would apply to an additional dollar of income), would reduce output and raise interest rates relative to the benchmark economic projections that CBO used in producing the extended baseline. Those economic differences would lead to lower federal revenues and higher interest payments. With those effects included, debt under the extended baseline would rise to 108 percent of GDP in 2038.

HARMFUL EFFECTS OF LARGE AND GROWING DEBT

How long the nation could sustain such growth in federal debt is impossible to predict with any confidence. At some point, investors would begin to doubt the government's willingness or ability to pay U.S. debt obligations, making it more difficult or more expensive for the government to borrow money. Moreover, even before that point was reached, the high and rising amount of debt that CBO projects under the extended baseline would have significant negative consequences for both the economy and the federal budget:

- Increased borrowing by the federal government would eventually reduce private investment in productive capital, because the portion of total savings used to buy government securities would not be available to finance private investment. The result would be a smaller stock of capital and lower output and income in the long run than would otherwise be the case. Despite those reductions, however, the continued growth of productivity would make real (inflation-adjusted) output and income per person higher in the future than they are now.
- Federal spending on interest payments would rise, thus requiring larger changes in tax and spending policies to achieve any chosen targets for budget deficits and debt.
- The government would have less flexibility to use tax and spending policies to respond to unexpected challenges, such as economic downturns or wars.
- The risk of a fiscal crisis—in which investors demanded very high interest rates to finance the government's borrowing needs—would increase.

THE CONSEQUENCES OF ALTERNATIVE FISCAL POLICIES

Most of the projections in The 2013 Long-Term Budget Outlook are based on the assumption that federal tax and spending policies will generally follow current

law—not because CBO expects laws to remain unchanged but because the budgetary implications of current law are a useful benchmark for policymakers when they consider changes in laws. If tax and spending policies differed significantly from those specified in current law, budgetary outcomes could differ substantially as well. To illustrate the extent of that difference, CBO analyzed the effects of some additional sets of fiscal policies.

Under one set of alternative policies, referred to as the extended alternative fiscal scenario, certain policies that are now in place but that are scheduled to change under current law would continue instead, and some provisions of current law that might be difficult to sustain for a long period would be modified. With those changes to current law, deficits (excluding the government's interest costs) would be a total of about $2 trillion higher over the next decade than in CBO's baseline; in subsequent years, such deficits would exceed those projected in the extended baseline by rapidly growing amounts. The harmful effects on the economy from the resulting increase in federal debt would be partly offset by lower marginal tax rates. Nevertheless, in the long run, output would be lower and interest rates would be higher under that set of policies than under the extended baseline. With those economic changes incorporated, federal debt held by the public would reach about 190 percent of GDP by 2038, CBO projects.

In a different illustrative scenario, deficit reduction would be phased in such that deficits excluding interest costs would be a total of $2 trillion lower through 2023 than in the baseline, and the reduction in the deficit as a percentage of GDP in 2023 would be continued in later years. In that case, output would be higher and interest rates would be lower over the long run than in the extended baseline. Factoring in the effects of those economic changes on the budget, CBO projects that federal debt held by the public would be 67 percent of GDP in 2038, close to its percentage in 2012. Under a third scenario, with twice as much deficit reduction—a $4 trillion reduction in deficits excluding interest costs through 2023—CBO projects that federal debt held by the public would fall to 31 percent of GDP by 2038, slightly below its percentage of GDP in 2007 (35 percent) and its average percentage over the past 40 years (38 percent).

Those different scenarios for fiscal policy would also have different effects on the economy in the short term. During the next several years—when the nation's economic output will probably remain below its potential, or maximum sustainable, level—the spending increases and tax reductions in the alternative fiscal scenario (relative to what would happen under current law) would increase the demand for goods and services and thereby raise output and employment. The reductions in deficits under the other illustrative scenarios, by contrast, would decrease the demand for goods and services and thereby reduce output and employment.

THE UNCERTAINTY OF LONG-TERM BUDGET PROJECTIONS

Even if the tax and spending policies specified in current law continue, budgetary outcomes will undoubtedly differ from CBO's current projections as a result of unexpected changes in the economy, demographics, and other factors. Because the uncertainty of budget projections increases the farther the projections extend into the future, CBO's report focuses on the next 25 years.

To illustrate the uncertainty of those projections, CBO examined how altering its assumptions about future productivity, interest rates, and federal spending on health care would affect the projections in the extended baseline. Under those alternative assumptions—which do not cover the full range of possible outcomes—federal debt held by the public in 2038 could range from as low as 65 percent of GDP (still elevated by historical standards) to as high as 156 percent of GDP, compared with the 108 percent of GDP projected under the extended baseline with the economic effects of fiscal policy included.

Those calculations do not address other sources of uncertainty, such as the risk of an economic depression or major war or the possibility of unexpected changes in birth rates, life expectancy, immigration, or labor force participation. Nonetheless, CBO's analysis shows that under a wide range of possible assumptions about some key factors that influence federal spending and revenues, the budget is on an unsustainable path.

CHOICES FOR THE FUTURE

The unsustainable nature of the federal government's current tax and spending policies presents lawmakers and the public with difficult choices. Unless substantial changes are made to the major health care programs and Social Security, those programs will absorb a much larger share of the economy's total output in the future than they have in the past. Even with spending for all other federal activities on

track, by the end of this decade, to represent the smallest share of GDP in more than 70 years, total federal noninterest spending would be larger relative to the size of the economy than it has been, on average, over the past 40 years. The structure of the federal tax code means that revenues would also represent a larger percentage of GDP in the future than they have, on average, in the past few decades—but not large enough to keep federal debt held by the public from growing faster than the economy starting in the next several years. Moreover, because federal debt is already unusually high relative to GDP, further increases in debt could be especially harmful. To put the federal budget on a sustainable path for the long term, lawmakers would have to make significant changes to tax and spending policies—letting revenues rise more than they would under current law, reducing spending for large benefit programs below the projected levels, or adopting some combination of those approaches.

The size of such changes would depend on the amount of federal debt that lawmakers considered appropriate. For example, bringing debt back down to 39 percent of GDP in 2038—as it was at the end of 2008—would require a combination of increases in revenues and cuts in noninterest spending (relative to current law) totaling 2 percent of GDP for the next 25 years. (In 2014, 2 percent of GDP would equal about $350 billion.) If those changes came entirely from revenues, they would represent an increase of 11 percent relative to the amount of revenues projected for the 2014—2038 period; if the changes came entirely from spending, they would represent a cut of 10½ percent in noninterest spending from the amount projected for that period.

In deciding how quickly to carry out policy changes to make the size of the federal debt more sustainable, lawmakers face other trade-offs. On the one hand, waiting to cut federal spending or raise taxes would lead to a greater accumulation of debt and would increase the size of the policy adjustments needed to put the budget on a sustainable course. On the other hand, implementing spending cuts or tax increases quickly would weaken the economy's current expansion and would give people little time to plan for and adjust to the policy changes. The negative short-term effects that deficit reduction has on output and employment would be especially large now, because output is so far below its potential level that the Federal Reserve is keeping short-term interest rates near zero and could not lower those rates further to offset the impact of changes in spending and tax policies.

This testimony reiterates the summary of The 2013 Long-Term Budget Outlook, *which is one in a series of reports on the state of the budget and the economy that CBO issues each year. Prepared under the supervision of Joyce Manchester, the report represents the work of many people at CBO. In accordance with CBO's mandate to provide objective, impartial analysis, neither the report nor this testimony makes recommendations. Both are available on CBO's website, at* www.cbo.gov/publication/44521 *and* www.cbo.gov/publication/44602*, respectively.*

Chairman RYAN. Thank you. Let me start on the big picture here. We haven't solved the problem. Revenues are projected to go to, what, 19.5 percent of GDP, far higher than our average that we have been at?

Mr. ELMENDORF. Yes.

Chairman RYAN. So the revenues are rising, but spending is taking off at an unsustainable trajectory, correct?

Mr. ELMENDORF. The combination of the revenue path and the spending path is unsustainable.

Chairman RYAN. Right.

Mr. ELMENDORF. Whether you choose to fix, adjust one line or the other is up to you.

Chairman RYAN. Right. What I find interesting in your report is the main driver of these outlays that are going up so fast are the health care programs, particularly the new one, the Affordable Care Act, in the first 10 years. That is the great contributor. I find your shadow box 1.1 is very interesting where you look at aging, you break it down between aging, excess costs, growth, and then the Medicaid expansion exchange subsidies. So it is not just the fact that Baby Boomers are retiring. That is a big contributor, correct.

Mr. ELMENDORF. Yes.

Chairman RYAN. It is also the fact that health inflation is getting out of control, it is running faster than everything else. And then when you add more programs that exacerbate those, that in lies the biggest driver of our debt, correct?

Mr. ELMENDORF. Yeah. The one amendment I would make is that health spending has outpaced GDP growth for sometime, as you know.

Chairman RYAN. Right.

Mr. ELMENDORF. In fact, it has been slower relative to GDP recently, but nonetheless still growing relative to GDP, and that is a contributor to growth.

Chairman RYAN. Thus excess cost growth?

Mr. ELMENDORF. Yes.

Chairman RYAN. So what I find really interesting in this report is when you add an economic analysis to it, correct me if I am wrong, but you are basically saying if we get a fiscal package in place now that, let's say, take the $4 trillion number, that means we will have lower interest rates which will help the economy, which will grow GDP, which will lower our debt, so that is economic stimulus, using a term that my friends use, 101, meaning lower—a bigger debt package, lower interest rates, faster growth, lower debt burden.

Then lower marginal income tax rates I find is a very interesting aspect of your analysis. What you are saying is if we keep high marginal income tax rates that will slow down our economy, we will not hit as much of a potential, but if we lower our marginal income tax rates, albeit on a revenue-neutral basis, that will accelerate economic growth, that will help grow GDP and give us a smaller debt burden in the future. Is that basically what I am getting out of this?

Mr. ELMENDORF. Yes, I think that is right, Mr. Chairman. The one thing I would add is that putting a package in place that gives people confidence that future deficits will be smaller can hold down interest rates today and boost the economy. That is a slightly different point than the one I made in my opening remarks about actually implementing the tax increases or spending cuts today, and that part alone would slow the economy in its economic expansion.

Chairman RYAN. You are basically making a timing point there, though, correct?

Mr. ELMENDORF. Yes.

Chairman RYAN. So from a Keynesian perspective, doing something that is a shock now, from a Keynesian perspective, a big spending cut that is immediate or a big tax increase that is immediate will harm and put our base in the wrong direction?

Mr. ELMENDORF. Yes.

Chairman RYAN. But if we put in place a long-term debt reduction plan dealing with these primary drivers of our debt, which are clearly these health care programs—there are other factors, but health care programs—and if we have tax reform that lowers our marginal tax rates, that will help us in a couple of great ways. It will help us in lower interest rates, which grows the economy, and the lower tax rates will help grow the economy, which means we can get this thing under control even with the retirement of the

Baby Boom population. Is that basically what I am getting out of this?

Mr. ELMENDORF. Yes, Mr. Chairman, that is right.

Chairman RYAN. That is the point we are trying to make here. This is where we want to go. The reason this debt limit fight is coming is because when we have had great fiscal bipartisan agreements in the past, whether it was Reagan with Gramm-Rudman, whether it was Bush with Democrats in the Senate in 1990 at Andrews Air Force Base, whether it was Gingrich and Clinton, or BCA and Bowles-Simpson, these things were part of debt limit agreements. They have always been the forcing actions that got us agreements.

And what we are getting here is if we put together a package now before the Federal Reserve normalizes, before interest rates start going, we will put ourselves as a Nation in a very good position. But if we miss this moment, if we just kick the can because we keep fighting each other, then we will not get this opportunity; the Federal Reserve will start tapering, we all know that. It is not an "if," it is a "when." Interest rates will go up, and shame on us because the hole we will have to dig ourselves out of then will be that much deeper. He is already giving us numbers, $145 billion a year versus $350 billion a year. And it is so clearly in our interest as a country—this is not a Republican-Democrat thing; this is a math thing—to do something about this. And what we are seeing here, it is these health care programs are the primary drivers of our debt. This is why we are focused on these health care programs. This is also why we are focused on tax reform, because what we are getting is if we keep high marginal tax rates, we hurt businesses, we hurt job growth, we slow down the economy from hitting its potential.

If we lower our marginal tax rates, we have more economic investment, we have more entrepreneurship, small businesses can compete.

The highest, the top effective marginal tax rate as of January now is 44.6 percent. Eight out of 10 businesses in America, they don't file their taxes as corporations. They file their taxes as people. We call them subchapter S corporations, LLCs, sole proprietorships, partnerships, pass-throughs. The international average tax rate on businesses is 25 percent. Most other industrial nations don't tax themselves like we do ours. They don't have a pass-through regime like we have. They just have business tax rates, and they are, on average, 25 percent. Our corporate rate is 35, that is the highest in the industrialized world, and that is for 20 percent of our businesses. The other 80 percent go as high as almost 45 percent effectively. We are really hurting ourselves with these high tax rates. And so what we are getting here is if we lower our tax rates—and believe me, there is a way to do this without losing revenue. Lower our tax rates, we can have faster economic growth. If we take advantage of the moment we are in, the low interest rate moment we are in, which will not last that much longer, and get a fiscal consolidation package on spending and entitlement reform, we will do our country a big favor; we will do our children a big favor because we will bank debt reduction and economic growth at a time where it makes the most bang for the buck, the most dif-

ference. But if we don't take advantage of this moment—this is why we are focused on the debt limit, this is why we are focused on these issues—then shame on us because the hole we will have to dig ourselves out of will be that much deeper. I will reserve the balance of my time.

Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

And the whole purpose of the budget law, which establishes a process for the House and the Senate to pass budgets and then go to conference, is to try and work out these big issues on the budget deficit, not just for this year but for future years. And the law requires that the conference committee between the House and the Senate report by April 15th.

And yet our Republican colleagues have prevented us from going to conference and instead gone for a strategy where they drive this country right up against the debt limit, create huge uncertainty and, in that context, try and make huge demands. If you read the papers today, they say, Okay, United States will pay its bills, but only if you adopt the entire House Republican agenda, anti-environmental laws, get rid of the Affordable Care Act for a year. That is irresponsible.

The responsible way to do it is the way the law prescribes, and unfortunately, Mr. Chairman, the Speaker absolutely refused to go to conference so we could be working on these issues for a number of years.

Now, here is where we agree, that it is about math. It is about math. And every bipartisan group that has looked at our long-term deficit challenge has said, you have got to look at both sides of the budget equation. Yes, of course, you have to look at the spending side, and we have to deal with the long—care—health pieces, and by the way, Mr. Chairman, again, you did include in your budget the Medicare savings that we achieve without diminishing quality after your presidential candidate demagogued against those for months on the campaign trail, but you recognized that they were important to help reduce the deficit, and in fact, the Republican budget wouldn't balance in 10 years without them.

So we understand that we have to have savings on the health care side in a responsible way, but we also recognize that simple math tells you that the other side of the equation needs to be looked at as well, revenue.

Dr. Elmendorf, you pointed out the fact, which is that if we keep running high deficits and debt, as the economy improves, that will crowd out private investment, right?

Mr. ELMENDORF. Yes.

Mr. VAN HOLLEN. And that will increase interest rates, and that would slow down economic growth, right?

Mr. ELMENDORF. Yes.

Mr. VAN HOLLEN. And you have said that if, in the next 10-year period, we reduce the projected deficit by $2 trillion, then, in 2035, we would have a debt-to-GDP ratio where we are today, right?

Mr. ELMENDORF. Yes, that is right.

Mr. VAN HOLLEN. And you have been clear that you could achieve that $2 trillion deficit reduction through cuts or through revenue or through a combination; isn't that right?

Mr. ELMENDORF. Yes, Congressman.

Mr. VAN HOLLEN. And so if you want to have, if you want to eliminate that drag on economic growth, the key point in your report is that we have to reduce the deficit, right?

Mr. ELMENDORF. Yes.

Mr. VAN HOLLEN. And it is up to policymakers to decide what mix.

And we totally agree, Mr. Chairman, that we need to reduce the deficit, just as the CBO has said, but we think that we need to have a balanced approach because if you do it only by cutting on the health care side, you are going to be asking Medicare beneficiaries, whose median income is $23,000, and for many of them who get half of that income from Social Security, that $23,000, you are going to be asking them to take a big hit when you are not asking people who are earning a million dollars to eliminate some of their deductions or you are not going to ask big oil companies to get rid of their special interest tax breaks, which is why we have argued, just like every bipartisan commission, that you have to do a combination of things, and that is simple math. You have got to do something on the revenue side, and you have got to do something on the spending side.

Now, Dr. Elmendorf, as I look at your analysis here, and you look out to 2035, and you compare this year's projection to the previous current law projections, in fact, the biggest driver of increased deficits in the out years is the fact that we changed the tax law so that less revenue will be coming in, isn't that the case?

Mr. ELMENDORF. Yes, that is right, Congressman.

Mr. VAN HOLLEN. So the reason the deficit in 2035 is much higher under this report than in previous reports is because we changed the tax law and less revenue will be coming in. So our point is the point I think the overwhelming majority of American people support, which is to tackle this challenge, you need to address both pieces of this going forward.

Chairman RYAN. Can I ask you a question about that then?

Mr. VAN HOLLEN. Sure.

Chairman RYAN. Are you suggesting we should raise tax rates on middle income taxpayers, which is what we prevented from happening in that tax——

Mr. VAN HOLLEN. Actually, no, Mr. Chairman. In fact, reclaiming my time, our view is that your tax plan does exactly that, because you say you are going to get the top rate down to 25 percent, you say you are going to do it in a revenue neutral manner, which according to lots of analysis means you have got to come up with $4 trillion, even while you are providing the folks at the top with a big tax cut. And the way you are going to have to make it up mathematically is to increase the burden on middle income folks.

And if it is not the case, we would love to see your tax plan, you know. It has been in the Republican budget for 3 years now. Let's see it. Just like for the last 3 years, you have been talking about repeal and replace on health care. We have had 42 votes on repeal; not a single House Republican plan has been voted on to come up with a different system.

So let me ask you this, Mr. Elmendorf, because we need to look at the long term, and we should act now to deal with it, but we

also should make sure we get the economy moving more quickly. Now several months ago, we asked you, the CBO, that if you were to get rid of the fiscal year 2013 sequester and the fiscal year 2014 sequester, how many jobs would be saved? We are obviously now not able to take back fiscal year 2013, despite our efforts to try and replace that sequester. So just for this coming fiscal year, just for fiscal year 2014, if the sequester remains in place, what is your best estimate as to how many fewer jobs we will have in this country this time next year; 100,000, 200,000? What is your estimate?

Mr. ELMENDORF. Well, so, Congressman, if the Congress were to move discretionary funding back up to the original caps under the Budget Control Act and turn off the sequestration for 2014, we think that would add about half a percent to the level of GDP at the end of 2014, and it would add about 600,000 jobs at the end of 2014. Those are the mid points of ranges. We often present our economic estimates with ranges to show the uncertainty. The effect on GDP we think would be somewhere between two-tenths of a percent and eight-tenths of a percent on GDP growth, GDP at the end of 2014. As I said, it was a midpoint of half a percent, and the effect on full-time equivalent employment would be between 200,000 jobs and a million jobs, again with a midpoint of 600,000 full-time equivalent jobs.

Mr. VAN HOLLEN. Okay, just so I understand. Your best estimate as to how many fewer jobs we will have in this country if we keep the sequester in place between now and this time next year is 600,000?

Mr. ELMENDORF. Yes, that is right, Congressman.

Mr. VAN HOLLEN. And just for the benefit of our colleagues, the last 3 months, we have seen around 500,000, in fact, fewer jobs, so you are talking about keeping the sequester in place that wipes out more than the number of jobs that were created in the last 3 months. That is an unnecessary self-inflicted wound.

And so, Mr. Chairman, I would just, again, ask that the majority in this House allow us a simple vote on our plan to replace the sequester to save over 600,000 jobs, to end the eating away at important investments, whether it is in biosciences or our infrastructure, which clearly is having a negative impact on the economy and on the country going forward.

Mr. Elmendorf, let me just ask in the last minute here, if we were to actually not pay our bills, if the United States Government were to lapse on its full faith and credit, could you discuss what the potential negative impacts could be on the economy?

Mr. ELMENDORF. Congressman, defaulting on any obligation of the U.S. Government would be a dangerous gamble.

In a very uncertain world, one thing that everyone has been able to count on is that the U.S. Government will pay its bills on time; the benefit checks for older Americans, for needy Americans will go out on time; that grants to State and local governments will be paid when they are scheduled, that the bills that small and large businesses submit to the Federal Government in exchange for the goods and services the government buys will be paid on time; and that the principal and interest payments on the Federal debt will be made on time.

If the confidence in the reliability of those payments were cast into doubt, then the consequences for the budget, for the U.S. economy, for the U.S. and global financial systems could be large and lasting and very damaging.

Mr. VAN HOLLEN. Thank you, Dr. Elmendorf. I noticed that you said default on any obligation because——

Mr. ELMENDORF. Yes, Congressman.

Mr. VAN HOLLEN [continuing]. Some of our colleagues have this debt prioritization bill, we call it the Pay China First bill, which says you don't have to pay our troops in the field, you don't have to pay doctors on Medicare, but you pay bondholders, including the government of China. What you are saying is that default on any obligation would send a very bad signal?

Mr. ELMENDORF. Yes, Congressman. It is very hard for economists to know exactly what would happen. It might be that defaulting on some obligations would be different than defaulting on others, but we don't have a basis for really analyzing that because, fortunately, we have not had a lot of experience with the government defaulting, but I think given how much money the Federal Government owes, to stop paying what is owed is a very risky strategy.

Chairman RYAN. Thank you.

I will reclaim the balance of my remaining time. To try and just put this all in perspective, and I am not trying to pick a fight here, I am just trying to clarify our goals and intentions. If the minority would have been willing to agree to limiting their motions to instruct conferees to two, which was the offer given in the Senate, we could have gone to conference. That wasn't—you know, nobody wanted that.

Mr. VAN HOLLEN. Mr. Chairman——

Chairman RYAN. You and I spoke about that.

Mr. VAN HOLLEN. No, I have never heard that offer until this moment, Mr. Chairman, ever.

Chairman RYAN. That is not the case.

So the point we are trying to make is, the point I am trying to make is having endless motions to instruct would have done more to divide this Congress, more to prevent good, legitimate, serious reforms from making it into that budget agreement. When we have actually gotten bipartisan budget agreements in this country, especially in eras of divided government, such as the one we have right now, it has usually accompanied the debt limit.

We now get a report, a fresh one from the CBO, which, by the way, says that there are better Medicare reforms that can lower beneficiary costs and government costs through premium support. That is a pretty interesting report, I wonder if anybody has read that. It came out about a week ago. We hear that if we lower our marginal tax rates, it is good for growth and good for debt reduction. So the problem is, can people agree that it is not just rich guys we are hitting; it is actually successful small businesses who are the job creators that help grow the economy that is getting caught up in this, and lowering those tax rates is good for jobs, investment, good for the debt. And if we get fiscal consolidation, meaning entitlement reforms, the drivers of our debt, health care programs, that, too, will help us get our debt under control, grow our economy, and leave the next generation better off.

The final point is the window of opportunity is narrowing because interest rates are not going to be where they are for much longer.

Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman, and I want to welcome the Director back to the committee. I think if one is looking in this country and watching this on C-SPAN today, they are scratching their head and trying to figure out why there is agreement at the ground level that there is a debt but why we can't come to any more agreement than that, and I really am surprised at the ranking member in this conversation about the Affordable Care Act and our focus on it, and it is appropriate because it is of concern to the American people.

Thousands of stories of calamity across this country already because of Obamacare. Full-time workers being shoved into part-time status, destroying families, amazing that this would be tolerated by the administration, our friends on the other side of the aisle; thousands, hundreds of thousands of families with members of their families being tossed off their current health coverage because of the Affordable Care Act, not because of anything they desire as families, and this is destroying lives; huge numbers of doctors, and as a physician I can tell you, huge numbers of doctors that are no longer able to participate in the program. So I would urge my colleagues to listen to their constituents.

Also, I am surprised by the amnesia that I seem to hear from the other side. This is the President's sequester. The President's sequester. We on our side tried to pass a piece of legislation that would more appropriately prioritize the spending, but that was not—the administration wasn't willing to take that, and then the full faith and credit that we have passed with this continuing resolution last week.

But I do want to turn to your report because I find it very, very fascinating, the long-term budget outlook. This is the picture that you all chose to demonstrate the challenge that we have, and the outgoing line there is the increase in debt over a relatively short period of time, a time that all of us can remember in our lifetimes up here. Would you call that a large and growing debt?

Mr. ELMENDORF. Absolutely.

Mr. PRICE. So, on page 3, you state the harmful effects of a large and growing debt, and I want to draw our attention to one sentence there: At some point investors, with a large and growing debt, begin to doubt the government's willingness or ability to pay U.S. debt obligations.

That is a calamitous event when that occurs, is it not?

Mr. ELMENDORF. Yes, Congressman, it would be.

Mr. PRICE. And if we on this side, on both sides of the aisle are trying to look at the tea leaves and see how close we are to that point, are there things that we can look at as indicators?

Mr. ELMENDORF. Congressman, as we say in the report, there is no way to predict when the country would reach a fiscal crisis because those events are rare, have not occurred in this country, and depend not just on some particular amount of debt but on people's confidence in the ability of the government to manage its finances. So we don't know when we might reach that point in this country.

One indicator would be rising interest rates. On the other hand, when countries encounter fiscal crises, they have often been borrowing at fairly low interest rates for a long enough time to instill some confidence, some false confidence, in the path they are on, and then rates can rise very sharply with very little warning. So this sort of event may not have the sort of leading indicators that one would hope for.

Mr. PRICE. Mr. Chairman, we are still in that window where we can turn things around and move in the right direction?

Mr. ELMENDORF. Yes, absolutely.

Mr. PRICE. But at some point, that window closes, does it not?

Mr. ELMENDORF. Yes, it would.

Mr. PRICE. I want to shift to page 88 in your report that talks about the long-run effects of fiscal policies with smaller deficits and a couple graphs, and you stated, I think, in your comments that increasing debt decreases income.

Mr. ELMENDORF. Yes.

Mr. PRICE. And the graph on the bottom here demonstrates an alternative scenario where there is $4 trillion in deficit reduction over a 10-year period of time, and you actually have the debt and deficit decreasing and incomes increasing; is that correct?

Mr. ELMENDORF. Yes, that is right, Congressman.

Mr. PRICE. Can you help us understand why that, what the correlation is between those two?

Mr. ELMENDORF. Yes. So over time as the government borrows more money, it is reducing the funds that are available to private investors, and thus reducing the amount of capital investment we do, and it is that capital investment that together with education and other things makes workers more productive and leads to higher incomes, so if there is less investment, there is less productivity growth, less increase in wages and incomes over time.

Mr. PRICE. And the budget that House Republicans adopted had a debt reduction over a 10-year period of time of about——

Mr. ELMENDORF. I think about $4 or $5 trillion, Congressman.

Mr. PRICE. $4 trillion or $5 trillion. So if we want to get on a path that decreases debt and increases income for the American people, the House Republican budget is an example of one?

Mr. ELMENDORF. Yes, it is an example of one.

Mr. PRICE. Thank you.

I yield back.

Chairman RYAN. Ms. Schwartz. Wait, no, Ms. Schwartz is not here.

Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman.

Dr. Elmendorf, it is a pleasure to see you. Thank you for being here.

Over the last couple of months, I have talked to a large number of medical researchers, both in my district and elsewhere, who have reached near panic, I guess, over the effects of sequester on the projects that they have been working on and are very, very concerned about the long-term effects of sequestration on their work, but at the same time, they have given some very encouraging news. Virtually every researcher I have talked to believes that, within the next 10 years, we will have a disruptive change in the

medical field, one or more, and by a disruptive change, I mean curing cancer, curing diabetes, something of major consequences to the medical field and subsequently to the burden of health care costs in the country.

Have you, CBO, given any thought or projection as to what, say, curing diabetes—I think the estimates are somewhere around $150 billion a year spent systemwide—what that kind of disruptive change would mean on the projections of long-term health care costs for the taxpayer?

Mr. ELMENDORF. Congressman, our basic long-term projections don't try to guess what particular sorts of changes might occur in health care delivery. We have a gradual slowing of this extra cost growth over time in response to rising pressures of costs. We don't try to figure out the path for particular sorts of diseases or treatments for them. Whether curing a disease would help the Federal budget or not is actually not very clear. It would be great for people's lives, obviously, but the effects on the budget are complicated. When we looked at the effects of raising the cigarette tax in the lengthy report that we did, that would make people healthier. Fewer people would smoke. They would live longer. But the Federal budget has some odd cross currents; thus, less spending on health care for people who don't get certain diseases, people live longer; they collect Social Security benefits for longer. That is all to the good for society but may not be good for the Federal budget. So, for individual diseases and individual new approaches that could have different sorts of effects on the Federal budget, and we have not tried to work out any of those in great detail except for the increase in the cigarette tax and reducing smoking.

Mr. YARMUTH. Thank you. Let's look at in a different way. You talked about the fact that $4 trillion in reduction of either spending or a combination of reduction in spending and increased revenues would bring the debt as a percentage of GDP to below historic ranges. So we are talking basically about, what, $400 billion a year?

Mr. ELMENDORF. Yes, that is right.

Mr. YARMUTH. At current levels.

Mr. ELMENDORF. Yes.

Mr. YARMUTH. What would be the impact on the economy of taking $400 billion out of the economy, say, in the health care arena, $400 billion a year?

Mr. ELMENDORF. Well, if one takes it out of the economy right away, and especially under these economic circumstances, it would weaken the economy, it would reduce the number of jobs. That is why many people who have constructed different policies reducing deficits have focused on phasing in those policies over time, and again, back to the discussion we had earlier, there are pros and cons of how quickly one phases in policies. I think a general agreement that making decisions soon is good because the sooner you make decisions, the more time you give people to plan and adjust to where policies are going.

Mr. YARMUTH. Thank you.

The chairman of the committee talked about the—and stated as apparently a matter of faith or irrefutable faith that cutting mar-

ginal tax rates creates wealth and reduces the deficit and so forth. Didn't we try that in 2001 and 2003?

Mr. ELMENDORF. Well, Congressman, I think the economic statement, I should say carefully, is that reducing marginal tax rates while maintaining the same level of total revenue so that deficits would not be affected would be good for the economy. If one lowers tax rates and loses revenue through that process, then the effects on the economy depend on the magnitudes involved because the larger deficits are bad for the economy and the lower tax rates by themselves are good for the economy.

Mr. YARMUTH. But we did reduce the marginal tax rates in 2001 and 2003.

Mr. ELMENDORF. Yes.

Mr. YARMUTH. And we did not see a reduction in the deficit over the ensuing years; isn't that correct?

Mr. ELMENDORF. Congressman, I think when economists study the effects of changes in tax rates, we don't look at just a few years. There are so many things that go on in the economy and the budget, so we draw on a broader set of evidence.

Mr. YARMUTH. Thank you. I would yield the last 25 seconds—okay, never mind. I will just yield back the balance of my time.

Chairman RYAN. Mr. Garrett.

Mr. GARRETT. Doctor, thank you for coming here to testify. So, as Dr. Price was saying, the viewers who watch this probably can see the difference of opinion as to whether we are in financial difficulties or not. Looking at the issue of health care, we see the discrepancy on that view, so I appreciate that you are here and the report as well because we can sort of dig down into some of the numbers.

In the report I believe I read that the balance of the trust fund under Medicare, looking at that part right now, part A, would fall from $229 billion at the end of fiscal year 2012 to $31 billion at the end of fiscal year 2023. Is that correct?

Mr. ELMENDORF. Yes, Congressman.

Mr. GARRETT. And then you go on to say the CBO concludes that in a long-term budget outlook, what we are looking at here right now, is that, quote, under the extended baseline the trust fund would be exhausted just beyond the coming decades. Is that correct?

Mr. ELMENDORF. Yes, Congressman.

Mr. GARRETT. Okay. So I guess my constituents at home, I don't know whether they read this report or not, but——

Mr. ELMENDORF. I hope they do, Congressman.

Mr. GARRETT. Yeah, I hope they do, too. There are a lot of pictures. I mean, it is a little dry, but it is important. But they do get your message, and they do get your numbers, and that is why they are asking us, what are we doing to try to fix this? You use the word "exhausted." What they are asking me is what are we going to do to prevent bankruptcy by—another way to describe exhausted, I think. Could you tell us or tell them what will be the practical implications for seniors in my district and across the country as well if we get to that point where part A is exhausted or bankrupt, if you will?

Mr. ELMENDORF. So, as you know, Congressman, the payments for hospitals through Medicare come out of the Hospital Insurance Trust Fund. If that trust fund were exhausted, then the amounts that could be paid to hospitals for treating Medicare beneficiaries would be limited to the amount of revenues as they come in, and that would be less than would be needed to meet all of the bills that would rise under current law.

Mr. GARRETT. What does that mean to a senior at home today if that happens?

Mr. ELMENDORF. Well, we have not—so far, the Congress has not let either the Medicare or Social Security Trust Fund actually run out of money, but if Congress were to stand by when that happened, then hospitals would not get the payments written down in current law. I don't know which hospitals would get paid or which wouldn't or for which patients or what patients would not get paid for. There is no way to know.

Mr. GARRETT. So the bottom line, doctors potentially would not be paid, hospitals potentially would not be paid, more than potentially, and services——

Mr. ELMENDORF. Hospitals would not get the full payments that is written into current law; that is right, Congressman.

Mr. GARRETT. So just delving into it a little more, also in the report it says the Federal Government's health care spending will grow considerably in 2014 because of changes made by the Affordable Health Care Act. What are the growth projections for health care spending as a result of the Affordable Health Care Act as a percent of GDP as well?

Mr. ELMENDORF. Well, Congressman, all told, the Federal spending on these major health care programs is about 4.5 percent of GDP now, we think it will be 8 percent by 2038. And over those 25 years, there are substantial portions of the increase explained by the aging of the population and rising health care costs and by the coverage expansions of the Affordable Health Care Act.

Mr. GARRETT. Okay. So spending is going to go up, services would be going down. There was an article in the Wall Street Journal recently about the price of the premiums that people will be paying in my home State of New Jersey, New Jersey premiums would increase from $162 per month to $219 per month. I just did that, that is around 35 percent roughly increase in premiums under the Affordable Health Care Act if we just continue on right now. I know you guys did a look back in 2009 as far as increase of premiums. Have you done a look at what premiums would be increasing under the Affordable Health Care Act if the status quo is continued?

Mr. ELMENDORF. So you are right, Congressman, in the fall of 2009, we did an analysis of what the version of the Affordable Care Act in play at the time would do to premiums. We have not updated that. We are, of course, following the news about premiums, and we will factor them into our next baseline projections. We have not redone that particular analysis.

Mr. GARRETT. You haven't redone it. But do you still expect that the Affordable Health Care Act would increase premiums for Americans purchasing in the nongroup market?

Mr. ELMENDORF. Yes, Congressman. Let me explain clearly here. We thought there were a number of factors that would increase premiums, the most important of which in our estimation was insurance policies will be required to cover a larger share of the total services. That means that premiums would be higher but out-of-pocket payments would be lower.

Mr. GARRETT. Right. And that is a part of the Affordable Health Care Act?

Mr. ELMENDORF. That is because of the Affordable Care Act setting standards for what share of medical costs have to be covered by an insurance policy, but the increase in premiums and reduction in out-of-pocket costs will be offsetting for the average beneficiary. Some would pay more, some would pay less, but offsetting on average. There are other reasons also we think premiums would go up. As you know, those are before subsidies, the premiums that you are referring to.

Mr. GARRETT. My time is up, but I thank you for the clarification on all that.

Mr. ELMENDORF. Thank you, Congressman.

Chairman RYAN. Mr. Pascrell.

Mr. PASCRELL. Thank you, Mr. Chairman.

Mr. Chairman, I am glad that you are the chairman here. I would rather have Chris, of course, but I don't want to believe, I really don't want to believe that this obsession with the debt—and no one in this room denies, just looking at the pictures, that we have a debt and we need to address it. The question is, how do we address it? And we don't address it by making it worse. Folks that look back to 2009 and they see the great deficit that existed in 2009 because no business was investing, no capital, no consumers were buying, so the government has to do something, as they have done in 25 times in the 20th century whenever we had a recession or a depression.

So I like to put things in context, so I am counting on you. So you won't allow this issue to be a stalking horse for continued ideological struggle to slash the social safety net and pad the pockets of other people. I am counting on it. I can't put it any clearer than that. The—we are talking about this budget, and we are talking about——

Chairman RYAN. Since you engaged me, can I ask you, do you honestly think that is what we are trying to do?

Mr. PASCRELL. I said I am counting on you. If you want me to go on to the rest of the members, I can do that.

Chairman RYAN. No, but you are addressing me. I mean, honestly, do you honestly think that is what we are trying to do?

Mr. PASCRELL. Yeah, I think that is one of the reasons that we have the problem today.

Chairman RYAN. Well——

Mr. PASCRELL. I don't think that is your motivation. Who am I to question your motivation? But I don't think that is where you are at. So I am counting on that. But on page 103, the very large change between this year and last year—and correct me if I am wrong—in the projected Federal debt stems primarily from changes in tax law that have sharply reduced revenue, future revenues.

Mr. ELMENDORF. Yes, Congressman.

Mr. PASCRELL. That is on page 103. In this report, the largest reason for the deficit would be bigger, bigger than the previous estimate that we have had, is that the tax deal we had at the beginning of this year. Talk about amnesia. And that deal is very interesting to examine.

How much bigger, Mr. Elmendorf, would the deficit have been if we had extended the tax cuts of 2001 and 2003 for everyone, as my friends suggested on the other side? How much bigger would the deficit, since they are so concerned about this deficit and debt, how much bigger would it be?

Mr. ELMENDORF. It would be substantially larger, Congressman, but I don't have a numerical estimate at hand, I am sorry.

Mr. PASCRELL. Substantially larger?

Mr. ELMENDORF. Yes, Congressman.

Mr. PASCRELL. And then what do we do? So, in just 1 year, the projections for the future growth in our healthcare system went down by almost 10 percent. I have read parts of this report. That is what you say, correct?

Mr. ELMENDORF. So we brought down the—yes, Congressman.

Mr. PASCRELL. In all the other years before that since 1995, going back to 1990, those costs went up. Now maybe it just happened by chance. Maybe it just—we woke up one morning and said let's—insurance companies felt great and said, we won't increase insurance, the premiums as much as we did last year.

You know that is not how it happened, and I know that is how it happened. I don't know if everybody in the room knows that is how it happened.

So it is clear that we have much more to do, but this is a very significant accomplishment because so much of this deficit is dependent upon, as the chairman rightfully pointed out, health care costs. The purpose of the ACA, one of its purposes, was to bring down the health care costs.

Now, Dr. Elmendorf, on page 58 of your report, you make some projections regarding Federal non-interest spending, including discretionary spending.

Mr. ELMENDORF. Yes.

Mr. PASCRELL. Which we know is coming down. The President lowered it by half. The reason why he lowered it by half is someone said this morning, well, the reason—how can you say lowered it by half when he increased it so much in 2009, put it in context.

Chairman RYAN. Thank you.

Where are we?

Mr. McClintock.

Mr. MCCLINTOCK. Thank you, Mr. Chairman.

Dr. Elmendorf, we keep hearing the proposition that in order to reduce the deficit we either have to raise taxes or cut spending, as if taxes and deficits are opposites. It seems to me they are two sides of the same coin, that deficits are taxes. They are just future taxes. The only difference between a deficit and a tax is the timing of the tax.

Mr. ELMENDORF. Well, I think, Congressman, the accumulation in debt that comes from a deficit could be addressed later by a tax increase or by a spending cut later. I think what a larger deficit does is to push the question off for the future.

Mr. McCLINTOCK. But you are applying future taxes. I mean, taxes and deficits are the only two possible ways to pay for spending.

Mr. ELMENDORF. Yes, Congressman, that is right.

Mr. McCLINTOCK. Well, so it seems to me, then, the critical issue before us is the level of spending, since the level of spending automatically sets the combined level of current and future taxes, not the other way around.

Mr. ELMENDORF. Well, again, I think it can affect future spending as well. But I take your point that the only way to pay for spending is to collect that in revenue or to borrow that money.

Mr. McCLINTOCK. A recent article in The Wall Street Journal noted that the European experience is that those nations that have restrained spending increases relative to GDP overall had higher economic growth than those that did not. Is that your observation?

Mr. ELMENDORF. Congressman, it depends on the time period you look at and on the sets of policies. So the countries in Europe that have had more restrained fiscal policies in the past few years have not had good economic growth. They have had weak economic growth.

Mr. McCLINTOCK. When you say restrained fiscal policy, that is taxes and spending.

Mr. ELMENDORF. I mean countries that have had lower spending, Congressman, had lower spending or higher taxes——

Mr. McCLINTOCK. What The Wall Street Journal article was referring to specifically was levels of spending relative to GDP, and they found a remarkable correlation between restraint in increases in spending relative to GDP and economic growth.

Mr. ELMENDORF. So, Congressman, I think the way that economists would look at that question is to look at the effects that the tax code of a country is having on people's behavior.

Mr. McCLINTOCK. No, no. But, again, their point is it is the spending that seems to be directly correlated to growth. The greater restraint in spending, the greater overall economic growth these nations have had. You mentioned timing. I mean, just looking at the recent history of this country. Coolidge, Truman, Kennedy, Reagan, Clinton all cut spending relative to GDP, Hoover, FDR, Johnson, and Bush all increased spending relative to GDP. The economy seemed to do better under the former policies than the latter.

Mr. ELMENDORF. Well, Congressman, President Hoover, for example, not to defend his economic policies exactly, but GDP started to fall. Spending rose as a share of GDP because of what happened in the economy, not what happened—not originally——

Mr. McCLINTOCK. But just in terms of raw Federal spending, he increased spending 60 percent during his 4 years in office, a rather breathtaking amount.

Mr. ELMENDORF. Just knowing that the ratio of spending to GDP depends both on explicit decisions about spending——

Mr. McCLINTOCK. But even factoring that out, just in nominal terms, 60 percent increase in Federal spending in 4 years is rather breathtaking, and it didn't seem to jump-start the economy.

Mr. ELMENDORF. Most economists think that expansionary fiscal policy in the Depression, meaning larger deficits, was good for the

economy during the Depression. Most economists think that the lower taxes and higher spending——

Mr. MCCLINTOCK. I understand that.

Mr. ELMENDORF [continuing]. During the past economic downturn were good for the economy during the downturn. The problem is the longer-term effects.

Mr. MCCLINTOCK. I understand that. That is an example of what I like to call McClintock's third law of political physics, which is the more we invest in our mistakes, the less willing we are to admit them.

But let me go on to a response that you made to the ranking member, who asked you about the debt limit. Did I understand you correctly to say that you see no distinction to credit markets between the government defaulting on actual debt owed to the public and delaying payments of routine obligations? Did I understand that correctly.

Mr. ELMENDORF. No. That is not what I said, Congressman.

Mr. MCCLINTOCK. Good.

Mr. ELMENDORF. I said that defaulting on any obligation of the U.S. Government was a dangerous gamble. And I said, Congressman——

Mr. MCCLINTOCK. But do you believe that credit markets see a distinction between defaulting on the actual debt owed to the public and delaying payments of routine obligations?

Mr. ELMENDORF. And I said, Congressman, that it might be that the financial system or the economy would respond differently to default on different kinds of obligations, but that economists did not have a basis for making analytic predictions, because we don't have experience in that.

Mr. MCCLINTOCK. I want to turn to one other subject very briefly: student loans. $1 trillion of debt owed to the Federal Government, increasing default rates. The amount that we are putting in seems to be driving a huge increase in tuition. Tuition is up four times the rate of inflation over the past decade. Health care up twice the rate of inflation, yet we talk about affordable health prices. Are we heading toward a student loan default bubble?

Chairman RYAN. Thank you.

Mr. ELMENDORF. We haven't studied that, Congressman.

Chairman RYAN. I just want to keep everybody on time.

Ms. Castor.

Ms. CASTOR. Well, thank you very much, Mr. Chairman.

Good morning, Dr. Elmendorf.

Mr. ELMENDORF. Good morning.

Ms. CASTOR. Thank you for being here, and thank you for all of the work that went into the 2013 Long-Term Budget Outlook.

I am very concerned with the economic damage that is being caused by the sequester. And you previously responded to Ranking Member Van Hollen by saying—did you say if we keep the sequester in place that that could cost our country 600,000 jobs over the next——

Mr. ELMENDORF. Yes, yes. Relative to the alternative, moving discretionary funding back up to the original BCA caps and not having the sequester take effect.

Ms. CASTOR. And that would take, did you say, a half point away from gross domestic product?

Mr. ELMENDORF. About half a percent off of gross domestic product by the end of 2014.

Ms. CASTOR. And, you know, back home in Florida, in my community, the type of jobs we are talking about, I think we have already seen some very harmful impacts. Our premier cancer research center in Tampa is the Moffitt Cancer Center. They, before the sequester, had 120 researchers working to find a cure for cancer and work on treatments. They are down to 100 researchers. At the Air Force base, MacDill Air Force Base is one of our largest community economic drivers, they are furloughing mental health counselors, among others there.

We all agree that defense is—that part of the budget is shrinking, but the sequester does not give us a lot of room to maneuver on the type and where we want those cuts to take place. Law enforcement job losses, cuts to the courts, very significant cutbacks in education.

And then when the Republicans adopted the CR last week, it became crystal clear, I think, that they intend to march forward with those sequester cuts. Then I look at your report, and it is apparent those kind of expenditures aren't the drivers of the long-term debt. Is what America is investing right now in innovation or infrastructure or education, are those the drivers of the debt and deficit?

Mr. ELMENDORF. No, Congresswoman. All of government spending, except for spending for this handful of large programs, will be a smaller percentage of GDP by the end of this decade than it has been at any point since the 1930s. What is growing in dollar terms and relative to the size of the economy is spending on Social Security and Medicare and Medicaid in particular.

And, Congresswoman, I would just add that, of nondefense discretionary spending, historically nearly half has been in investment of some sort. About 20 percent of that spending has gone to physical capital, think of building highways, for example; about 15 percent has gone to education and training, what economists would call investment in human capital; about 10 percent has gone to research and development, like health research. So historically nearly half of this category of nondefense discretionary spending has been an investment of some sort.

Ms. CASTOR. Well, then, we have a real mismatch here now on what the Republicans have enacted and have set forth in debate just last week on the CR on what the debt reduction strategy is. You want to continue the sequester. Meanwhile the CBO's report says the long-term drivers of the debt and deficit: an aging population. We have proposed significant reforms in Medicare, just look at the Affordable Care Act, a lot of those reforms taking Medicare from fee for service to a system based on quality, changing those models.

We really need to sit down and negotiate. The Republicans' refusal to negotiate on the budget for the past 4 months has led to this mismatch in policy. I talk to many of you, my Republicans colleagues, they say, yes, I am sorry, we want the sequester, we want these cuts. But I hope you really study the CBO's report and un-

derstand it is not those investments in innovation, education, infrastructure in America that are driving the long-term debt.

I will yield back.

Chairman RYAN. Mr. Lankford.

Mr. LANKFORD. Thank you.

Dr. Elmendorf, thanks for being here as well. Let me just bounce to a couple different issues if we have time. On Social Security Disability, SSDI, what is your report on that as far as the status of that and where it is headed in the coming days?

Mr. ELMENDORF. So the Disability Insurance Trust Fund will be exhausted in just a few years, Congressman, I think in 2015—or 2016, I am told. We think that trust fund will be exhausted in 2016.

Mr. LANKFORD. So we have 3 years.

Mr. ELMENDORF. Yes, Congressman.

Mr. LANKFORD. What is the status at that point once that is exhausted?

Mr. ELMENDORF. Once that trust fund is exhausted, as with the Hospital Insurance Trust Fund, then the payments can presumably be only as large as the incoming receipts, which are not enough to cover all the payments that the government is committed to under current law.

Mr. LANKFORD. Has that changed as far of the growth of that program in the days ahead? What has brought about that moment? Has that date changed, 2016? Did it used to be 2020? Have you been able to determine the history of that?

Mr. ELMENDORF. Our projection of that date has moved around over time. As you may know, Congressman, the disability insurance rolls have increased markedly over the past few decades, and we have done a number of reports ourselves trying to show you what the sources of that increase are and to give you policy options for addressing it. In the last few years it has been pushed up in particular, I think, by people who have some disabilities, have lost their jobs, have trouble finding jobs, and have applied for disability insurance.

Mr. LANKFORD. Are you aware of Congress implementing any of those policy options that you have recommended in the past?

Mr. ELMENDORF. No, Congressman.

Mr. LANKFORD. Do you think it might be time for us to implement a few of those——

Mr. ELMENDORF. I hope that you find these options useful for you as you decide what policies to follow.

Mr. LANKFORD. At some point, when we begin to solve some of these issues, let's say, is that the first entitlement to reach an insolvency level, is the disability?

Mr. ELMENDORF. As you know, only a few of these benefit programs have trust funds of this sort, and that is the first of these benefit programs that would reach insolvency.

Mr. LANKFORD. If we implemented some of the policy options, and we can discuss some of those in the days ahead, but if we implemented any of those policy options, how many years would it take to bring some stability to that? So what I am trying to ask is, the clock is ticking, we have 3 years before we are insolvent. If we implemented that policy at the end of this year would that buy

us another year depending on what it might be or would it take several years to be able to get it into the system to build it up?

Mr. ELMENDORF. So in principle, of course, you could make very sharp changes overnight, but in practice——

Mr. LANKFORD. Yeah, we could add a lot of tax dollars to it, or deficit dollars, and say we are just going to continue to fund it that way with deficit.

Mr. ELMENDORF. Or in principle you could just cut benefits a lot for existing beneficiaries. But I think in practice, the point you are making is that Congress generally makes changes that are phased in over time, and that emphasizes the importance of deciding as soon as possible what changes you want to make, because if you want to phase them in and you need to forestall the exhaustion of a trust fund or you want to forestall a given increase in debt, then it is even more important to make decisions and start that process right away.

Mr. LANKFORD. Okay. On page 64 of your report you make a pretty remarkable statement about the tax revenue is going up. And you say that the tax revenues you project is going up because of the growth in real income, and the interaction of the tax system with inflation would push a greater proportion of income into higher tax brackets, and certain tax increases enacted in the Affordable Care Act would generate increasing amounts of revenues relative to the size of the economy.

Is this similar to what we faced with the AMT for years, that because it wasn't inflation adjusted we had a growing number of people that were caught into that AMT trap?

Mr. ELMENDORF. It is similar, not as traumatic as the AMT increase would have been. The AMT was not indexed for inflation, and moreover the Congress enacted a series of these temporary changes——

Mr. LANKFORD. Correct.

Mr. ELMENDORF [continuing]. So that the jump got larger and larger, the jump under current law got larger and larger over time.

Mr. LANKFORD. Is there an assumption at all in some of your conversations that that may occur again at some point? Since it was in your alternative fiscal scenario that there would be an extension of the AMT, is there a discussion to build into an alternative fiscal scenario that Congress will again not allow more and more people to be trapped in these higher taxes in the days ahead?

Mr. ELMENDORF. Yes. Our alternative scenario, which tries to extend policies that Congress has followed, extended in the past, or not let certain things take effect or be sustained that might be hard to sustain, one of the things that scenario includes is holding tax revenue at a lower level indefinitely rather than rising. And in the past Congress has tended to act to cut taxes when tax revenue got to be a larger share of GDP.

Mr. LANKFORD. On page 88, you talk about how, if the deficit comes down, the graph that Dr. Price had mentioned earlier, when the deficit comes down people's real growth in income goes up. And you made a stark statement earlier about it, and that was that when sovereign debt is requiring more and more of those individual dollars to come out, it is less money that goes into capital invest-

ment, and so that slows the economy down some and the real growth with that.

What is interesting to me about it is the assumption, then, is private dollars going into investment has a greater increase on the economy than government dollars taking that and, quote/unquote, investing that into the economy.

Mr. ELMENDORF. I think our view, Congressman, would be that investment does good things for the economy. A lot of investment, of course, most investment occurs in the private sector. There can be government investments that pay large dividends over time. We haven't modeled that effect specifically in this analysis.

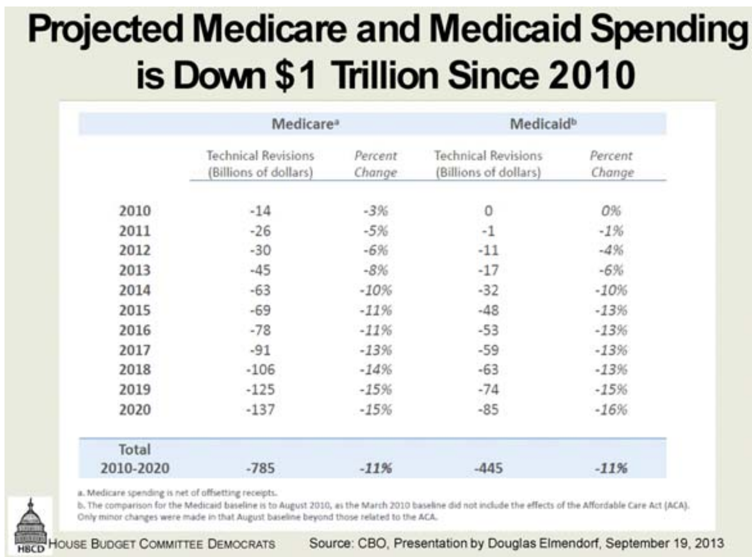
Chairman RYAN. Thank you.

Dr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

It is always good to have an economist here. Welcome, Doug.

Mr. ELMENDORF. Thank you, Congressman.



Projected Medicare and Medicaid Spending is Down $1 Trillion Since 2010

	Medicare[a]		Medicaid[b]	
	Technical Revisions (Billions of dollars)	*Percent Change*	Technical Revisions (Billions of dollars)	*Percent Change*
2010	-14	*-3%*	0	*0%*
2011	-26	*-5%*	-1	*-1%*
2012	-30	*-6%*	-11	*-4%*
2013	-45	*-8%*	-17	*-6%*
2014	-63	*-10%*	-32	*-10%*
2015	-69	*-11%*	-48	*-13%*
2016	-78	*-11%*	-53	*-13%*
2017	-91	*-13%*	-59	*-13%*
2018	-106	*-14%*	-63	*-13%*
2019	-125	*-15%*	-74	*-15%*
2020	-137	*-15%*	-85	*-16%*
Total 2010-2020	-785	***-11%***	-445	***-11%***

a. Medicare spending is net of offsetting receipts.
b. The comparison for the Medicaid baseline is to August 2010, as the March 2010 baseline did not include the effects of the Affordable Care Act (ACA). Only minor changes were made in that August baseline beyond those related to the ACA.

HBCD HOUSE BUDGET COMMITTEE DEMOCRATS Source: CBO, Presentation by Douglas Elmendorf, September 19, 2013

Mr. MCDERMOTT. I put a chart up on the screen because I want everybody to see. It is one of your charts. And in late 2010, the fiscal commission that we have lionized, the Bowles-Simpson, called for roughly $400 billion in healthcare savings in their original proposal. Now, since that time, however, CBO has reduced Medicare and Medicaid projections by roughly $1 trillion, more than twice as much as they suggested. Is that correct?

Mr. ELMENDORF. Yes, Congressman. Actually about a $1.25 trillion reduction in our projection of spending for these programs in the last 2 years.

Mr. MCDERMOTT. So that would suggest that the chairman's blaming of all our deficit on healthcare spending is really not quite accurate. We are actually reducing it. And it is certainly questionable as to whether that is going to be the major cost of our deficit in the future, isn't it?

Mr. ELMENDORF. Well, Congressman, our projections of the growth in healthcare spending have come down. Nonetheless, as

you know, in our current projections the growth of healthcare programs is the largest factor leading to higher spending and wider deficits over time. And we showed in the report a sensitivity analysis to our projection of healthcare spending growth that shows that even if growth is a good deal lower than we project, that the debt would still rise relative to GDP over the next 25 years.

Mr. MCDERMOTT. So there is just too many people living too long. Is that what you are saying?

Mr. ELMENDORF. Well, I wouldn't say too many people, but there are a lot of people living longer, and that increases the number of beneficiaries of Medicare and of Medicaid. As you know, a large share of the Medicaid dollars go to older Americans, particularly for longer-term care.

Mr. MCDERMOTT. So if we cut off the spending at the Federal level for the people who are on the program, how will their care be paid for, or will they simply not have care?

Mr. ELMENDORF. I think it depends on what you did, Congressman. But as you know, many older Americans do not have substantial financial resources, and if they suddenly faced a larger burden to purchase health care, that would affect the care they could buy or the other things, other necessities they could buy.

Mr. MCDERMOTT. Or they would turn to their children.

Mr. ELMENDORF. Yes, Congressman, that is possible, too.

Mr. MCDERMOTT. As it was before 1964 in this country, when old people didn't have health insurance, they turned to their kids. That is what my grandmother did. She came and lived with us and we paid her bills. Right? That is what went on before this program.

So what they are talking about when they want to cut Medicare spending, they are really saying, we are going to cut what the government will spend for old people. They can find it wherever they want after that. They can go to their children or they can go out and beg in the streets or not have the care. Is that——

Mr. ELMENDORF. Congressman, I can't speak to what the "they" in your sentence wants to do.

Mr. MCDERMOTT. Okay. I want to look at your chart on page 10. I mean, since we are blue-skying it here about 75 years. I want to look at that chart and ask you a question that Ms. Castor sort of moved toward, which is we are not making investments now.

Now, if you look at the Civil War, during the Civil War Abraham Lincoln started the land grant colleges, he did the Homestead Act, he did the national railways. That looked like reckless spending to me. Why would you do, when you have a big spike?

And then you come to the Second World War, and we come out of that and we have the GI Bill and we have FHA and we have VHA and we had the Federal highway system under Eisenhower, all reckless spending by our Presidents at that time.

Now, why was it the country didn't go into default or disappear from the face of the Earth because of this reckless spending that had been done by these Presidents? Why did it work? You are an economist, so give us an explanation.

Mr. ELMENDORF. I am less familiar with the post-Civil War period, but after the Second World War, Congressman, the government roughly balanced its budget and the economy grew rapidly. So the ratio of debt to GDP fell sharply.

Mr. MCDERMOTT. Where were they getting the money to give these scholarships to every guy who came back from the military, practically was all men. They handed out the GI Bill of Rights. Where did that money come from?

Mr. ELMENDORF. The Federal Government raised tax revenue roughly equal——

Mr. MCDERMOTT. Raised tax revenue?

Mr. ELMENDORF [continuing]. Roughly equal to the spending that it was doing.

Mr. MCDERMOTT. Well, they raised the tax revenue and did that? They were investing in the people? Is that what created the greatest generation, you think?

Mr. ELMENDORF. Well, I think the government investments played some role, Congressman, but I don't know how important they were relative to other factors, I really don't.

Mr. MCDERMOTT. Where did they get the money for the highway system?

Chairman RYAN. Thank you.

Mr. Flores.

Mr. FLORES. Thank you, Mr. Chairman.

Director Elmendorf, thank you for joining us again today.

Mr. ELMENDORF. Congressman.

Mr. FLORES. There were a couple of comments that came from the other side that we need to correct. They just don't need to hang out there. I would remind Ms. Castor that the sequester was the President's idea. If she doesn't like it, I can give her a phone number to take care of, to call.

Ms. CASTOR. Will the gentleman yield?

Mr. FLORES. The next thing has to do with some of the comments from our ranking member——

Ms. CASTOR. He has offered a replacement plan eight times.

Mr. FLORES. Ma'am, this is my time. I didn't interrupt you.

The other comments had to with Mr. Van Hollen. He said that we have done nothing about the sequester, but unfortunately he is incorrect. We have tried in the House to replace the sequester more than once.

The other comments about shutting——

Mr. VAN HOLLEN. Will the gentleman yield on that? Because that is not what I said.

Mr. FLORES. Yes, you did.

Mr. VAN HOLLEN. I said you hadn't taken action this Congress.

Mr. FLORES. And the other thing I would like to say is that the comments about Republicans talking about shutting down government are incorrect. You have not heard one comment on this side of the aisle about shutting down the government. Those are irresponsible and reckless comments.

One of the things we have heard is that we need to raise taxes. And I would refer you to page 80 of your report, and it says that increases of marginal tax rates on labor and capital income would reduce output and income relative to what would be the case with lower rates, all else being held equal. For example, a higher marginal tax rate on capital income decreases the after-tax rate return on savings, weakening people's incentive to save. Less saving im-

plies less investment, a smaller capital stock, and lower output and income.

So, I mean, you stand by those comments, don't you?

Mr. ELMENDORF. Yes, Congressman.

Mr. FLORES. Okay. Well, I just would like to remind the other side of the aisle that for all this furor about wanting to raise tax revenues, that they could damage the economy in doing that.

Let's kind of move to the real world for a minute, let's talk about central Texas for a second. If the government has a policy or a law that increases healthcare premiums by 15 to 20 percent per year, is that good or bad for employment and economic growth?

Mr. ELMENDORF. Congressman, I think it depends on the policy.

Mr. FLORES. Okay.

Mr. ELMENDORF. I really don't think there is a standard answer to that question.

Mr. FLORES. Well, let me tell you what the answer is, because the employers in my district are telling me it is bad and they tell me about what has happened to their past head counts and what is going to happen to their future head counts. What if we had a policy or a law that causes employers to reduce the number of full-time employees by reducing maximum weekly hours to something less than 30 hours per week? Is that good for employment and GDP growth or bad for employment and GDP growth?

Mr. ELMENDORF. So, Congressman, the Affordable Care Act does include some incentives, as you know, for employers to move toward more part-time employment.

Mr. FLORES. Well, let me give you the real world answer.

Mr. ELMENDORF. Whether that affects the total amount of labor is not clear.

Mr. FLORES. That is, our employers in our district say that it is bad for employment.

How about Federal regulations that cause the price of energy to skyrocket? Is that good for the economy and GDP growth and employment or is that bad for it?

Mr. ELMENDORF. Higher energy prices tend to slow the economy, all else equal, Congressman.

Mr. FLORES. Thank you. Mr. Chairman, I yield back.

Chairman RYAN. Oh, wow.

Ms. Lee.

Ms. LEE. Thank you very much, Mr. Chairman.

Good to see you again, Director.

Mr. ELMENDORF. Thank you, Congresswoman.

Ms. LEE. Let me ask you a couple questions. I will go right to them.

First of all, last week, as we all know, House Republicans cut, I think, about $40 billion from the SNAP funding. Many of us believe this is morally wrong and deeply troubling, especially considering nearly one in five children in America suffer from food insecurity and nearly half of all SNAP recipients are children. $40 billion in cuts means 6 million families will be cut off from this vital economic lifeline, and at a time when so many are already struggling to stay afloat.

This is for me very mind-boggling, it is unconscionable, and it is wrong. There is certainly no rationale for throwing hungry chil-

dren, families, and seniors off of SNAP, and I can't conceive of any compelling economic rationale either, given that for every $1 in SNAP benefits, I believe it is $1.70 generated in economic activity.

So I just have to ask you, in terms of the economic benefits to SNAP spending, does CBO estimate the current economic impacts of these types of cuts in basic nutrition on the healthcare costs in the future? That is my first question.

And then secondly has to do with the public option. I believe that—I think it was 2011—CBO and the Joint Committee on Taxation estimated that a public option would reduce the deficit by about $88 billion between 2012 and 2021. Given that the Affordable Care Act at passage saved about, I think, $140 billion and now it would cost about $109 billion to repeal, what do you think from a fiscal point of view a public option would achieve in terms of—had we included them in the exchanges, what would be the downsides or upsides fiscally of the public option?

Mr. ELMENDORF. So, Congresswoman, on your first question about SNAP, our estimate of the legislation that passed the House was that it would reduce the number of people receiving SNAP benefits by about 4 million in 2014 and about 2 million in 2023. And we have said a number of times in the past that people receiving SNAP benefits or other benefits of this sort have a high propensity to consume, to spend the money they receive, and thus that providing them with more money tends to be a short-term boost for the economy and taking money away from them would tend to be a short-term drag on the economy. We have not done the economic analysis of this particular piece of legislation.

On your second question about a public option, as you were reporting correctly our estimate from our last volume of—set of budget options, and we think that including a public option in the insurance exchanges would bring down Federal spending. That estimate was, as you say, about $90 billion over 10 years. We have not updated that estimate since that point, but we have no reason to think that it would be markedly different today.

Ms. LEE. Thank you very much, Mr. Chairman. I yield the balance of my time.

Chairman RYAN. All right. Mr. Rigell here? No.

Mr. Rokita.

Mr. ROKITA. Thank you, Mr. Chairman.

Thank you, Director. Good to see you again.

Mr. ELMENDORF. Congressman, good to see you.

Mr. ROKITA. I want to go down and unpack this idea that the sequester is hurting the economy and killing jobs and so forth. Do government jobs better the economy?

Mr. ELMENDORF. Yes, Congressman.

Mr. ROKITA. How?

Mr. ELMENDORF. Because if the government pays people for working, they then earn money they spend by buying refrigerators and cars and clothes and other things, and then those people have jobs.

Mr. ROKITA. Point taken. Where does the government get the money to pay that initial person?

Mr. ELMENDORF. Well, under——

Mr. ROKITA. Where does the government get the money to pay you and me?

Mr. ELMENDORF. So under current circumstances, as you know, any extra spending comes from—if you just raise spending, the government would borrow that money.

Mr. ROKITA. No, no, no, no. Where does the government get the money to pay you, me, and the hundreds of thousands of other workers that you say if were laid off would hurt the economy?

Mr. ELMENDORF. So it raises some of that money through tax revenue and it borrows some of it.

Mr. ROKITA. Okay. So it confiscates that money from people in the private sector, correct?

Mr. ELMENDORF. It raises some of the money through tax revenue.

Mr. ROKITA. Which is a confiscation of property, correct?

Mr. ELMENDORF. Those have to be your words, Congressman. They are not budget terms.

Mr. ROKITA. Okay. Fine. We take money from the private sector to fund the jobs of the government like you and me, right?

Mr. ELMENDORF. You raise tax revenue and you borrow.

Mr. ROKITA. Right. Now we are borrowing, too. About 40 percent of our Federal budget is borrowed, of course, from people that don't yet exist, so it is a tax on them whenever we pay that debt.

Mr. ELMENDORF. Well, it is borrowed from people who certainly do exist and provide the cash.

Mr. ROKITA. Well, the debt created by that is eventually paid back by people who are around when you and I are dead.

Mr. ELMENDORF. That may be. It depends what policies are pursued.

Mr. ROKITA. Well, you probably run a lot more in the morning than I do, so maybe you will live longer. But the point is, is that to run the government, to pay people who work these government jobs, we take from somewhere else. We take from the private sector. So that is less property, less money, right, that they have to grow the economy. So you obviously don't agree with me.

Mr. ELMENDORF. Right.

Mr. ROKITA. How much does the economy grow by paying all these people in government jobs?

Mr. ELMENDORF. So, Congressman——

Mr. ROKITA. You say that government jobs help the economy.

Mr. ELMENDORF. Yes.

Mr. ROKITA. To what extent, what percentage?

Mr. ELMENDORF. So I am not sure what the policy experiment that you had in mind is. Is the alternative of no government or is it a reduction——

Mr. ROKITA. No, no, no. I am asking you the questions.

Mr. ELMENDORF. Well, I can't answer if I don't understand the question.

Mr. ROKITA. How we started this off was you said that the economy grows with government jobs. To what extent? How much? How do you quantify that?

Mr. ELMENDORF. So it depends on the economic circumstances. In an economy where there is sufficient demand for goods and services, that essentially all of the productive capacity is at work,

which was true in this country in 2007, for example, then an additional government job is likely to come out of a job in the private sector.

However, if the demand for goods and services is less than the productive capacity of the economy, which has been the case in 2009, 2010, 2011, 2012 and 2013, then additional government borrowing that is then spent to hire government employees or to provide benefits will increase the output and employment in the economy.

Mr. ROKITA. Okay.

Mr. ELMENDORF. And that is a very widely held view among economists.

Mr. ROKITA. If that is the case, why don't we just tax everyone 100 percent and borrow more so that we can grow the economy? That would be a surefire way to make sure GDP increases, right?

Mr. ELMENDORF. So, Congressman, it is not true at every tax rate. I am speaking about the economic situation in the country today, the tax system we have in the country today. Given where we are now——

Mr. ROKITA [continuing]. Temporarily 100 percent, borrow more temporarily, and then——

Mr. ELMENDORF. Well, Congressman, tax rates of 100 percent, as you well know, would drive down private activity.

Mr. ROKITA. Well, I don't believe that when you confiscate property from the private sector to fund government jobs that you actually grow the economy. So we have already established that you and I have a difference of opinion. So, yeah, I don't well know. But you well know that, because of what you said, that you grow the economy with all these government jobs, and I am trying to quantify that, what you mean, and understand why we shouldn't do more of this borrowing, more of this confiscation of the people's property in the form of taxes to better ourselves, to just get ourselves right out of this hole.

Mr. ELMENDORF. So two thoughts, Congressman. One, on behalf of my opinion, there was a survey of economists conducted by a group at the University of Chicago, conducted of economists, leading economists across the country, about whether the Recovery Act had made output and employment higher than it otherwise would have been, and 88 percent of the respondents said yes, 4 percent said no. So my opinion is widely shared.

On the second point——

Mr. ROKITA. By Keynesians.

Mr. ELMENDORF. This was a survey of economists, Congressman, leading economists across the country.

Mr. ROKITA. I see that I am out of time. Thank you.

Mr. ELMENDORF. On the second point, Congressman, the best quantification I can give you is the one I started with in response to Congressman Van Hollen's question, which was an estimate of the effects of continuing versus not continuing with the sequestration for 2014.

Mr. ROKITA. Mr. Chairman, I would simply say that sequester is not the problem.

Chairman RYAN. Thank you.

Mr. Jeffries.

Mr. JEFFRIES. Dr. Elmendorf, under the 8 years of the Clinton administration the so-called confiscation tax rate was 39.6 percent. Is that correct?

Mr. ELMENDORF. That was the top tax bracket, Congressman, yes.

Mr. JEFFRIES. All right. And under this confiscation rate, approximately 20 million jobs were created in America. Is that correct?

Mr. ELMENDORF. I don't remember the number, Congressman, but it was quite a few. It was a tremendous economic boom.

Mr. JEFFRIES. Okay. And now during the 8 years of the Bush administration, which immediately followed the Clinton administration, am I correct that the so-called top confiscation rate was dropped to 35 percent? Is that right?

Mr. ELMENDORF. Yes, Congressman.

Mr. JEFFRIES. And we lost approximately 600,000 jobs during that 8-year period. Is that right?

Mr. ELMENDORF. I don't remember the exact number.

Mr. JEFFRIES. Okay. Now, as it relates to a statement that was made earlier by one of our colleagues, suggested that the American people looking at this hearing might come to the conclusion or be perplexed at our inability to move forward with a resolution, because I think we all agree that there is a long-term deficit and debt problem that we need to confront.

I would certainly agree with the ranking member in his observation that perhaps the problem is that we have breached the procedural integrity of the budget process, that the House has passed a budget, the Senate has passed a budget, and the next step in that process is to move forward with conference committees. Because the math that we should really be paying attention to preliminarily is the electoral math, and the electoral math says that we are in a divided government context and that there are 54 Democrats and independents in the Senate, which constitute a majority; that Barack Obama did win reelection with 51 percent of the vote, only the second President since Eisenhower, I believe, with two consecutive popular vote margins to exceed 51 percent.

We are in a divided government context. We should move forward with the integrity of the process, which is conference committee, so we can work it out and perhaps try and find common ground to move things forward.

Now, you stated, I think, in your testimony that the consequences of default on the debt would be large, lasting, and very damaging. Is that correct?

Mr. ELMENDORF. I said that economists are unsure, but they could be large, lasting, and very damaging, and that is why I think it is a dangerous gamble to default on an obligation.

Mr. JEFFRIES. Right. I think you said it was a risky strategy to stop paying what the United States government owes. True?

Mr. ELMENDORF. Yes, Congressman.

Mr. JEFFRIES. Now, part of the problem with a default on the debt is that it would erode the confidence of investors in the belief that the United States has the ability to manage its economic affairs. Is that right?

Mr. ELMENDORF. Yes, Congressman.

Mr. JEFFRIES. And one of the reasons why Greece and some of the other European countries, which many of our colleagues love to allude to, find themselves in the situation that they are in right now is because there was an erosion in confidence in the ability for those countries, like Greece, to manage their economic affairs, correct?

Mr. ELMENDORF. Yes, Congressman.

Mr. JEFFRIES. And one of the consequences of that erosion of confidence is that the rates on our debt moving forward would increase, perhaps quite significantly. Is that right?

Mr. ELMENDORF. They could, Congressman, yes.

Mr. JEFFRIES. And so an erosion of confidence then leads to an increase quite possibly in our debt burden, and an increase in our debt burden worsens our long-term budget outlook. Is that right?

Mr. ELMENDORF. Yes, Congressman.

Mr. JEFFRIES. And that is part of the reason why I think it would be irresponsible to simply attempt to hold hostage the full faith and credit of the United States of America in the context of us paying our bills as we confront the need to raise our debt ceiling. And I hope that this Congress will come together and stop playing partisan politics as it relates to this very serious issue.

One last question in the remaining time that I have. Would it be fair to say that an increase in the minimum wage largely benefits low-wage workers?

Mr. ELMENDORF. Yes, Congressman.

Mr. JEFFRIES. And low-wage workers are most likely to immediately spend the increased income. Is that right?

Mr. ELMENDORF. I think that is right, Congressman. But people who work and receive a higher wage would have higher income that they would be likely to spend. As you know, a higher minimum wage can also reduce the number of people who have jobs.

Mr. JEFFRIES. Right. Now, an increased spending, an increased consumer demand would ultimately lead to economic growth. Is that correct?

Mr. ELMENDORF. Under the current economic conditions, an increase in the demand for goods and services would boost output and boost the number of jobs.

Mr. JEFFRIES. Okay. Thanks. I yield back.

Chairman RYAN. Thank you.

Mr. Ribble.

Mr. RIBBLE. Thank you, Mr. Chairman.

Good morning.

Mr. ELMENDORF. Good morning, Congressman.

Mr. RIBBLE. Thanks for being here.

I want to change the direction a little bit to Social Security. Your report I think shows the Social Security trust fund actually going insolvent in 2031 now? Is that correct?

Mr. ELMENDORF. Becoming exhausted in 2031, yes.

Mr. RIBBLE. In 2031. It seems that in the 3 years that I have been here that window keeps getting shorter and shorter.

Some would say that we should wait till we get to 2031 and then address it, because Congress seems to react better to crises than to fiscal management. Is it more expensive to address it then or is

it more expensive to address it now? I mean, is there a cost to waiting?

Mr. ELMENDORF. There is certainly a cost to waiting, Congressman.

Mr. RIBBLE. In what regard?

Mr. ELMENDORF. So the longer one waits to make changes, the larger the changes need to be and the more abruptly they would need to take effect. For Social Security right now, the age for full retirement benefits is working its way up as part of an agreement that Congress and the President reached in the early 1980s, and that agreement was to do various things, including phasing in an increase in retirement age over a long period. But the longer one waits to address the imbalance in Social Security and in the Federal budget as a whole, the less time one would have to phase in any changes that you and your colleagues agreed to.

Mr. RIBBLE. When you started kind of your first run or first stint over at CBO, I think it was back in the early 1990s, 1993, 1994, something like that, were they talking about Social Security then, because that was post those reforms? Were they also seeing this trend then?

Mr. ELMENDORF. Yes. It was very much on the radar of analysts. And, in fact, later in the 1990s there was a lot of discussion among policymakers. This aging of the U.S. population has been predicted for decades now. I recall Alice Rivlin, the first Director of CBO, giving a talk that I saw in the 1990s talking about how it wasn't really that far away, but nonetheless a number of years have now passed with no changes.

Mr. RIBBLE. So now we are 20 years past that date and still no fix in sight. I am assuming that the fixes, at least in the 3 years that I have been looking at this since I came to Congress, the fixes seem to we relatively well known. CBO has spoken of them and other Members of Congress have spoken. Would you agree with that?

Mr. ELMENDORF. So we published a report a few years ago that had a long list of changes, with estimates of their budgetary effect, the effect on people of different generations, different income levels. I think the menu of possibilities is well known, but people have not chosen off the menu collectively. Individuals have chosen off the menu.

Mr. RIBBLE. At some point we are going to need to do that. We are either going to be forced into doing it in a crisis or we are going to do it thoughtfully and ahead of time and do it that way.

Now, since to a certain degree economists are professional speculators—I say that with a little bit of tongue in cheek—I would like you to speculate a little bit on how you might see the financial markets, the ratings agencies, and even the American people responding to a Congress that with forethought and thoughtfulness actually reformed these programs to save and protect them. How would they respond?

Mr. ELMENDORF. I think that if a Federal budget were to be put on a sustainable path, it could have a very positive effect on the confidence of businesses and households in a way that could provide a substantial economic boost. And I don't know how to quantify that effect, but I think people now are very uncertain of what

Federal policy will be, very skeptical of whether those problems will be addressed in a timely way. And I think if they were, it would come as a very welcome surprise to a lot of people in a way that would be very good for the economy.

Mr. RIBBLE. And if it is very good for the economy and good for the American people, it is probably good for politicians, I would guess. And I would really encourage this body, both of us, Republicans and Democrats alike, to actually get serious about doing these things, because my sense is that political dysfunction is also a drag on the economy. Would you agree to that?

Mr. ELMENDORF. Yes, Congressman. We think that the uncertainty about where Federal policies are going is one of the factors that has led to slow growth in the past few years, not the principal factor, but a factor.

Mr. RIBBLE. All right. Thank you very much for being here.

I yield back.

Mr. ELMENDORF. Thank you, Congressman.

Chairman RYAN. Mr. Pocan.

Mr. POCAN. Thank you, Mr. Chairman.

And thank you, Dr. Elmendorf, for being here. It is a little bit ironic. I am glad that we are having this conversation, but it is a little bit ironic that we are having it at a time this body hasn't had a national budget, our country hasn't for the last 4 years. We are going to talk about long term, but we can't deal with the immediate. We have got the GOP-induced sequester that is having a drag on the economy, as you pointed out, we are dealing with.

Instead of being back in our districts this week, we are kind of held hostage back here on a Don Quixote mission to get rid of the Affordable Care Act one more time and to put us on the cusp of a government shutdown that, while we can't seem to do anything in the immediate, we are going to have a real good conversation about the long-term. It just seems a little ironic, but that is the position we are in.

But if I could ask you a couple questions specifically about the long-term and the Affordable Care Act and a couple about how you do some of the projections in the future.

So specifically on the Affordable Care Act, you know, taking the coverage provisions and other provisions of the Affordable Care Act together with the Medicare provisions and other revenue provisions, what is your estimate of the effect of the entire Affordable Care Act on the deficit and what would be the impact if we repealed the Affordable Care Act on the deficit?

Mr. ELMENDORF. We estimated that the Affordable Care Act reduced budget deficits and that repeal of the Affordable Care Act would increase budget deficits.

Mr. POCAN. And what kind of levels are we talking about?

Mr. ELMENDORF. Over the next 10 years, on the order of $100 billion, and then beyond the next 10 years a fraction of a percent of GDP.

Mr. POCAN. Got you. And then two specific questions specifically to how you determine some of the projections. You said that healthcare costs are growing much more slowly in the last 5 years, and just since the last report, you have got that projection in there. I am just wondering how many years, how much frequency do you

need to see in reduction of the healthcare costs before you change the per capita income, the growth estimates? Just trying to get a picture of what it takes for you to change that course a little bit so we can look at different numbers maybe in the future.

Mr. ELMENDORF. So we have already changed course to a significant extent. Relative to our projections in 2010, actual spending for Medicare and Medicaid have now fallen about 5 percent below what we thought they would be, and we have lowered our projected growth rate over the rest of this decade so that by 2020 projected Medicare and Medicaid spending are 15 percent roughly below what we projected a few years ago.

So we have in fact extrapolated some of the slow growth rates— we have seen into slow growth rates going forward. And we think that is appropriate because the slowdown in health cost growth has been very broad across different sectors of the healthcare world and has now lasted for half a dozen years or more.

But at the same time, past episodes of slow health cost growth have been followed by pickups in health cost growth, and the underlying driver of a lot of health cost growth is the development of new procedures and techniques and technologies, and that is continuing. So we don't think it is appropriate to take the last half dozen years and then just extrapolate those low growth rates out for decades to come.

So what we have done is to bring down the long-term growth rate a little bit in response to the data we have received, but mostly you should think of this as lower growth for a number of years and then a return close to previous growth rates, but for a significantly lower level of Federal healthcare spending than we projected a few years ago.

Mr. POCAN. So would it be more significant if you saw a decade of reduced spending, would that have a different impact?

Mr. ELMENDORF. Yes. I think the longer that this periods lasts and the more that we and others can learn about it. We did a very detailed analysis of the slowdown in Medicare cost growth, released a lengthy paper a month ago. And one of the conclusions from that analysis was that the weak economy does not seem to have been a factor in holding down Medicare growth, spending growth, and thus that an improvement in the economy won't necessarily undo the slower spending growth. As we and others do this kind of research that affects our estimates as well.

Mr. POCAN. If I can just get one more question in, I have got about a minute left. On the Social Security deficit, you know, I know that increased life expectancy, can you break down the projected shortfall due to people who are 50 and over versus, you know, their children and grandchildren? I think a lot of people make certain assumptions, but if we're going to have that continued projection in the future, is there a breakdown that you——

Mr. ELMENDORF. We have not broken down the shortfall by generation per se, but we do have a figure in the report that shows the taxes and benefits for people born in different decades. And for most people born, on average, across the 1940s, 1950s, 1960s, 1970s, and 1980s, those people have payroll taxes over their lifetimes that are pretty comparable to the benefits they are going to receive over their lifetimes. But the Social Security system started

by paying benefits to a collection of people who had not paid into the system, because the system wasn't there when they were working, and that has created essentially an ongoing debt, in a way, and that is really what the future generations will have to deal with.

Mr. POCAN. Thank you.

Chairman RYAN. Mr. Williams.

Mr. WILLIAMS. Thank you, Doctor, for being here today. Appreciate it.

I am a small-business owner, 73-year family business, myself 42 years, and I have been a borrower all my life. And you know where I am going with this. I can tell you Main Street America is not back. Some of our friends say the economy has come back, it is doing well. It is not doing well, as evidenced by the high unemployment rate that we still continue to have, underemployment, and so forth. Because people like me are concerned, where are we on taxes? You know, where are we on health care? We are all playing defense, afraid to hire anybody, afraid to put capital at risk because we don't know what kind of return we would get.

But all that being said, I am of the age that I borrowed money in 1980 at 20 percent and now I am able to borrow it almost in many cases zero percent. And, of course, we know which is better than the other. But I can tell you that there is a lot of industries that have seen costs go up six times or seven times since 1980. And, you know, rates back then were, as I say, 20 percent. And in my lifetime, a 6 percent rate has been a pretty good rate. We have been able to do well with that.

But the problem is with the costs being up so much, you know, 6 percent of, say, $60,000 right now would be more than, say, 20 percent of $10,000. There is a problem there developing, and I think it is a real concern. And the rates can kill small growth in business, it can kill. And nobody is really thinking about it, and I know you have talked about rates are going to go up because of this mismanagement of our, in many cases, of our debts and the huge deficit we continue to run up and not wanting to cut costs by some people.

I think, and I hope you would agree, that the answer is lower rates. You know, lower rates generate cash to grow and spend. If you have a lower rate, you just have more cash. And businesses don't save money, they spend money and they invest.

I believe tax cuts are revenue permanently. We hear the other side talks about revenue, but then they always talk about tax increases being revenue. Tax increases will eventually burden small business to where they don't exist anymore or they just have to, again, as I said, play defense.

We have tried zero percent, we have tried stimulus, none of that works. The last thing are tax cuts. And tax cuts are real revenue, whereas tax increases, I think, are temporary revenue, because it puts a burden on job creators.

So do you think that the solution with higher interest rates would be lower tax rates for all taxpayers across the board, which I think would mean more jobs—we have seen that in the history of our country—mean more jobs, it would reduce unemployment, and would create less dependence on the Federal Government.

Mr. ELMENDORF. Well, Congressman, if marginal tax rates were lowered, but the other changes were made in the tax codes, the same amount of revenue was collected, that would be good for the economy. But if tax rates are lowered and nothing else is done, so that total tax revenue falls as well, which we think it would if tax rates were reduced, then the reduction in tax rates by itself is good for the economy, but the extra borrowing would be bad for the economy. So our projections here, for example, incorporate both of those sorts of effects. So it really depends, not just on the tax rates matter, but so does the overall amount that the government is borrowing over time.

Mr. WILLIAMS. Well, if we reduced unemployment, we will say, from 7.5 percent or underemployment to maybe 12 or 15, if we reduced that down to 5 or 4 percent, let small-business owners like me in Main Street hire people, that is more revenue, that puts more people in the system, that is real money.

Mr. ELMENDORF. Yes. So absolutely stronger economic growth can make a great deal of difference in the gap between spending and revenues that we are projecting here. The question is what policies you could implement that would spur growth. And, again, I think that under the current economic conditions, tax cuts or government spending increases could spur growth, but over time then one wants to bring the budget more into balance, keep debt from rising so rapidly in order to keep economic growth going.

Mr. WILLIAMS. Well, we do have one of the highest tax rates in the world right now, and it doesn't seem to be working.

Mr. ELMENDORF. Well, the corporate tax rate in this country is higher than it is in other countries.

Mr. WILLIAMS. Right.

Mr. ELMENDORF. That is right, Congressman. As you know, the total amount of tax revenue that we collect as a share of GDP is smaller in this country than it is in most developed countries.

Mr. WILLIAMS. Well, I just think that we need to remind people, in my belief, that tax cuts are real revenue, tax increases are temporary and put a burden on small business.

Mr. Chairman, I yield back.

Chairman RYAN. Mr. Schrader. No, he is not here.

Mr. Cicilline.

Mr. CICILLINE. Thank you, Mr. Chairman.

Thank you, Dr. Elmendorf, for this excellent report and for being here today.

You said in your testimony that our nondefense discretionary spending will be at levels not seen since the 1930s. Is that correct?

Mr. ELMENDORF. Yes. As a share of GDP, yes, Congressman.

Mr. CICILLINE. And so the focus of your report is that health care and Social Security and interest or debt service are the three principal drivers of our debt.

Mr. ELMENDORF. Yes, that is right.

Mr. CICILLINE. And one would think that we should be putting together a plan to protect and strengthen those programs, be sure that they are being administered in a cost-effective, efficient way, and also plan on how to pay for them. And that would be done in the context of the development of a budget. Right?

Mr. ELMENDORF. Yes, it could be, Congressman.

Mr. CICILLINE. And it be helpful, of course, if we had a budget conference committee charged with doing that. And this report really underscores the urgency of adopting a budget and addressing these issues. And I hope you will mail a copy of this to the Speaker of the House with a note that appointing conferees to a conference committee is the next step, because we can't do a budget conference without him.

But I want to specifically ask you about two issues that you focus on in the report, and the first is that, as you know, we passed a continuing resolution that would partially defund, and now there is some effort to pass a resolution to completely defund the Affordable Care Act. And it will also, the continuing resolution also doubles down on sequestration.

And as I looked through your report, what really struck me in your testimony again today, affirmed it, you continually cite the rising cost of health care as one of the single biggest drivers of our long-term debt, and you go on to say, though, that the rate of increase in health care has declined and that you expect that isn't a flash in the pan, this is going to continue for some time. Correct?

Mr. ELMENDORF. Yes, Congressman.

Mr. CICILLINE. And so it is sort of hard to understand, if the Affordable Care Act is contributing to deficit reduction, why the strategy is being advanced by my good friends on the other side of the aisle to repeal this deficit reduction tool called the Affordable Care Act in an effort to reduce the deficit. Am I missing something?

Mr. ELMENDORF. I can't and won't speak to the motivations of you and your colleagues, Congressman.

Mr. CICILLINE. Okay. But there is no question, the Affordable Care Act, if it were repealed, would substantially add to the deficit.

Mr. ELMENDORF. We estimate that repeal of the Affordable Care Act would increase the deficit over the next decade and in the longer term.

Mr. CICILLINE. And that is because there is built into it a whole series of payment reforms and demonstration projects and competition that is going to create additional pressure to lower costs. Correct?

Mr. ELMENDORF. Because the spending cuts and tax increases in the legislation as it was enacted slightly outweighed the costs of the coverage expansions, and those factors would run in reverse if the law were repealed.

Mr. CICILLINE. And so with respect to the sequestration, you have already testified and your report confirms that the maintenance of sequestration will result in substantial job losses both in the current year and in the next fiscal year.

Mr. ELMENDORF. Yes. Compared with a policy that relaxed that restraint on spending.

Mr. CICILLINE. And restored spending back to the pre-sequestration levels. And what is the impact of that on the deficit, both in the short term and the long term?

Mr. ELMENDORF. Well, so stronger economic growth would reduce the deficit, but I don't want to leave the impression that we think that relaxing the sequestration would pay for itself. Like cuts in tax rates, that can be good for the economy, but not so good that the extra revenue offsets the initial cost of the tax cut.

Mr. CICILLINE. But your report reveals that in the long term the replacement of sequestration with a balanced approach will lead to a stronger economy and a reduction ultimately of the deficit?

Mr. ELMENDORF. So if the extra costs of relaxing sequestration were offset entirely by other policies that at some point in the future would raise taxes or cut spending, and if those other policies were actually adhered to, then one could have stronger growth in the near term with no worse or better economic conditions in the long term.

Mr. CICILLINE. And a reduction in the deficit.

Mr. ELMENDORF. And a reduction in the deficit.

Mr. CICILLINE. So these two sort of policies that we have heard so much from our friends on the other side of the aisle, you know, maintaining sequestration or making it worse or repealing the Affordable Care Act, both of those things taken together in terms of the long-term impact will actually increase the deficit.

Mr. ELMENDORF. Well, I want to be careful, because I think it depends on the combination of policies. So, again, in the short term a little more Federal spending.

Mr. CICILLINE. I am asking about the long term.

Mr. ELMENDORF. So in the long-term, if the combination of policies reduces spending or raises taxes, then that would put the budget and the economy on a stronger path, but you have to get to those policies. And if one doesn't do them this year or next year, then one has to implement them in the years after that.

Mr. CICILLINE. Thank you.

Chairman RYAN. Thank you.

Mr. Nunnelee.

Mr. NUNNELEE. Thank you, Mr. Chairman.

Thank you, Dr. Elmendorf, for being here.

Mr. ELMENDORF. Congressman.

Mr. NUNNELEE. I am going to ask questions on a couple of graphs in your report, starting with page 2, the bottom graph. You have already talked about how the driver of our debt is Social Security, healthcare programs, and interest, and the bottom graph on page 2 seems to bear that out.

My quick observation of math and that our current situation is that if we add the lines today for Social Security, for healthcare programs, and for net interest, both the total of those three roughly about equals what we are spending on all other non-interest spending.

Mr. ELMENDORF. That is right, Congressman. It will be a little higher. Yes, it is close to that, Congressman.

Mr. NUNNELEE. And then when I follow the graphs out 2038, I see that the three things that are driving our debt continue to get worse, while other non-interest spending goes down. So, again, my quick observation and math by 2038 is that Social Security, healthcare programs, and interest are about double what other non-interest spending is.

Mr. ELMENDORF. Yes, Congressman. I think that is about right.

Mr. NUNNELEE. All right. And now turn over to page 10, the graph on page 10, just showing our historical debt as a percentage of GDP. I see five significant spikes: the Revolutionary War debt,

Civil War debt, World War I and World War II, and then the spike that I see going out beyond 2030.

And what keeps me awake at night is to see that our debt is growing, not to pay the cost of defending freedom, but to pay for benefits for ourself. And the thing that keeps me awake is seeing my grandson or my granddaughter sitting in this chair in 2038 and having a repeat of December the 7th, 1941, and we find ourselves so much in debt we cannot afford to pay to defend ourself. Is that a valid fear?

Mr. ELMENDORF. I think that is a valid fear, Congressman. What we say in the report and have said on a number of occasions, one of the risks that is posed by having debt that is so high is that you and your colleagues lose the ability to respond to unexpected developments, economic crises or wars, in the way you would have the ability to respond if the debt started at a lower point.

Mr. NUNNELEE. And this week, we are debating the debt ceiling, and as I see it the debt ceiling that we place upon ourselves is an artificial debt ceiling, and I think it is a very valuable artificial debt ceiling that allows us to have this debate, but the real debt ceiling that any family, that any business or any government faces is when we get to the point when we can no longer find people to lend us money at a rate we can afford to repay.

Mr. ELMENDORF. Yes, Congressman.

Mr. NUNNELEE. As I see that spike going to 2038, it puts us in that position very quickly, and it certainly puts us in a position in the event of an unplanned catastrophe, such as December the 7th, 1941, comes upon us.

Mr. ELMENDORF. Yes, Congressman, that is right. And we talk in the report about how this sort of run-up in debt that we are projecting doesn't have a precedent in U.S. history. We have had run-ups before, as you noted, but they have been for particular circumstances and have then been reversed, and this would be unprecedented, and it reduces our ability to project just what would happen to interest rates under those conditions. And we note that, and we also highlight the risk that you are referring to, that if one has a high debt and then one hits a depression or one hits a war, then the country could really be in a very tight box with nothing but poor options, and that is why analysts think it is far, far better to take action sooner rather than later.

Mr. NUNNELEE. We have labeled the generation of the 1940s as the Greatest Generation, and they did defend freedom and earn that title. But in my opinion, an equal characteristic of greatness is their commitment to repay the debt that was incurred to defend freedom. And it appears that my generation is incurring debt to fund our own excesses. And we are willing to pass that on to our grandchildren, and that is simply not acceptable.

Thank you.

Chairman RYAN. Thank you.

Mr. Huffman.

Mr. HUFFMAN. Thank you, Mr. Chair.

And thank you very much, Dr. Elmendorf, it has been an interesting discussion, and it has even been interesting that we have had a few practitioners of political ideology interrupting and disagreeing with and attempting to reeducate our independent Ph.D.

nonpartisan economist who Congress turns to for answers in these situations. I think those who are watching have had an interesting window into some of the forces that have taken us to the brink of a government shutdown in that discussion.

I am, of course, sobered by this mountain of debt that you are projecting that we are grappling with. I think everyone in this institution should be, and I know that Democrats are very sobered by it. In fact, we may even be more dismayed because we have gone in a pretty short period of time in 2001 when following 8 years of the Clinton administration, your office was projecting we would be enjoying multi-trillion dollar surpluses at this very point in time to this mountain of debt that you are now projecting, and we could certainly probably have more discussion about how we got here, but it seems to me that putting a couple of wars on the national credit card, cutting taxes for the rich, and looking the other way while Wall Street crashes the economy had a lot to do with it.

In any event, it also seems to me that we have four issues that are immediately facing this House that could have either a positive or a negative effect on this situation depending on how we resolve them, the first of which is the sequester, and I want to just understand your testimony. I believe you said that continuing the sequester, which is what our Republican colleagues are suggesting in their CR and other proposals, in 2014 would eliminate 600,000 jobs and reduce GDP by as much as half a percent; is that correct?

Mr. ELMENDORF. Those are our estimates for the end of 2014, yes, Congressman.

Mr. HUFFMAN. Thank you.

And then, with respect to the debt limit, I think you were completely unequivocal in stating that a default of any kind could have catastrophic effects on our economy and our recovery.

Mr. ELMENDORF. I said that a default on any obligations of the Federal Government could have effects that are large, lasting, and very damaging to our economy and our financial system and the Federal budget.

Mr. HUFFMAN. All right. So that is the second big issue facing us right now in Congress.

The third is the Affordable Care Act, what will inevitably be the 43rd proposal in the days ahead to try to repeal it. Just to be clear, the Affordable Care Act is a net budget saver, correct?

Mr. ELMENDORF. That is our estimate, Congressman, yes.

Mr. HUFFMAN. So repealing it would actually make things worse?

Mr. ELMENDORF. Yes, Congressman.

Mr. HUFFMAN. And finally, we should be talking about—we are not, but we should be talking about comprehensive immigration reform along the lines of the bipartisan proposal that the Senate has advanced. What would the net effect on these fiscal challenges be if we could pass a bipartisan comprehensive immigration reform bill like the one that came out of the Senate?

Mr. ELMENDORF. Congressman, we estimated that the proposal that was approved in the Senate would improve the budget balance, would improve, would increase output in the economy over this coming decade and beyond.

Mr. HUFFMAN. Thank you very much for your testimony.

Again, there is no dispute that we face a serious challenge here, but rather than exchanging rhetoric about it, we have four things that I have just highlighted that are pending before this House that we can do to make it better or to make it worse, and I think your testimony has been very illuminating in that regard.

Thank you, Dr. Elmendorf.

And I yield back.

Mr. ELMENDORF. Thank you, Congressman.

Chairman RYAN. Thank you.

Mr. Rice.

Mr. RICE. Thank you, Mr. Chairman.

Thank you, Mr. Elmendorf, for being here today. Your study, and I think you said earlier that increased taxes are a drag on GDP; is that correct?

Mr. ELMENDORF. I said that higher tax rates for any given level of revenue is a drag on GDP, but it matters, of course, what the total revenue collected is as well.

Mr. RICE. What percentage of our economy is consumer spending, do you know?

Mr. ELMENDORF. I think, as a share of GDP, consumer spending is about two-thirds or three-quarters.

Mr. RICE. And taxes take away from that, correct?

Mr. ELMENDORF. Yes, Congressman.

Mr. RICE. All right. And what are taxes? How do you define taxes?

Mr. ELMENDORF. So——

Mr. RICE. They talked about this conversation earlier, but it is a government exaction.

Mr. ELMENDORF. So, in the Federal budget, revenues are monies that are collected through the sovereign power of the government.

Mr. RICE. I want to look at a little bit expanded view of taxes to not necessarily something collected by the government, but exactions forced by the government. So, for example, if we have our utilities bills go up because we have a war on coal or we refuse to use our own natural resources, does that affect consumer spending?

Mr. ELMENDORF. Yes, it does.

Mr. RICE. Negatively?

Mr. ELMENDORF. Yes. Higher prices for energy have been one of the big causes of swings in consumer spending in the past decade.

Mr. RICE. If we require people to buy insurance and their premiums go up, does that affect consumer spending?

Mr. ELMENDORF. Well, Congressman, it depends what else happens, and I am not trying to be coy here, but——

Mr. RICE. If they have less money in their bank account at the end of the month——

Mr. ELMENDORF. Congressman, yes, but as I noted earlier, some of the increase in premiums under the Affordable Care Act that we project comes from a reduction in out-of-pocket payments, which also affects how much money people have at the end of the month.

Mr. RICE. I just read in a Forbes article the average woman's premium will go up 60 percent and the average man's will go up 90 percent, I don't know. That is just what this Forbes article said. If interest rates go up, that is another factor because we can't get control of our budget deficit, that is another factor that is going to

take more money out of consumers' pockets and less money in their bank account and less consumer spending, right?

Mr. ELMENDORF. Yes, Congressman, that is right.

Mr. RICE. The way I view this, really they are all taxes disguised because they are all the result of government action. Increased insurance premiums, increased utility bills, increased taxes, with the fiscal cliff deal and now with the imposition of the Obamacare taxes, and increased interest rates, they all lead to lower bank accounts at the end of the month and lower economic activity.

Mr. ELMENDORF. But, Congressman, the problem that you and your colleagues face is that a cut in government benefits takes money out of consumers' budgets, and an increase in taxes takes money out of consumers' budgets, yet in the end, the amount of taxes that are collected and the benefits that are paid are going to have to come into closer alignment than would be the case under current law. So you don't really have a choice ultimately if our projections are at all right in either raising taxes or cutting spending.

Mr. RICE. I am curious about one thing. You said earlier that our average tax collections projected 5 years out under current law are going to be higher than they have been in the past, average.

Mr. ELMENDORF. Yes, that is right, Congressman.

Mr. RICE. And I just want a quick answer to this. Is there some kind of a sweet spot, you know, where you get diminishing returns with tax rates, you know, some kind of a Laffer curve analysis that you shouldn't go over or you will have substantially decreased economic activity?

Mr. ELMENDORF. Well, as tax rates rise, they will have incrementally bigger negative effects on output.

Mr. RICE. We are already at our average. Aren't we dancing around that?

Mr. ELMENDORF. Congressman, I think not. When economists try to estimate—I mean, again, each increase in tax rates will have some negative, more negative effect on the economy, but still total tax revenue will go up until those tax rates are a good deal higher than they are right now.

Mr. RICE. I hate to cut you off, but I am running out of time, but, you know, we are taxing with taxes, we are taxing with increased insurance, we are taxing with increased utility bills, we are taxing with increased interest rates. It seems like we are going to wring people dry.

The second thing, you talk about, you have analyzed the effect of sequester on jobs. Have you analyzed the effect of Obamacare on jobs and how many jobs that is killing and costing and hurting?

Mr. ELMENDORF. We did an analysis of this in 2010, Congressman, and our estimate at the time was that the Affordable Care Act would reduce the level of employment in the country by about half a percent by the point at which the law was fully phased in, and that was worth, equivalent to about 800,000 full-time equivalent jobs.

Mr. RICE. Okay. So which one is the biggest job killer, Obamacare or sequester?

Mr. ELMENDORF. So the effects of the Affordable Care Act on employment in 2018 or so, so about 800,000 full-time equivalent jobs,

the effects of the sequester for this coming year we think is about 600,000 jobs.

Mr. RICE. Okay, I want to tell you, I am getting hundreds of calls in my office, and they are not about sequester; they are about Obamacare. Thank you.

Chairman RYAN. Thank you.

Mr. Cardenas.

Mr. CARDENAS. Yeah, I think one of the reasons why so many people are getting calls about Obamacare is because there is millions upon millions of dollars being spent on attacking Obamacare, and it hasn't even been fully implemented yet, so I think that people, Americans are just reacting to the airwaves and what they are hearing because they are getting scared into believing that Obamacare is something that they should be afraid of.

Well, one of the things I would like to point out is that, you know, before I got involved in being an elected official, I was a former business owner, and I know what it is like to be a business taxpayer but also a domestic employer as well, and one of the things that I would like to point out for the record as well, Congressman Rokita made a statement about increasing taxes up to 100 percent of income basically is what he was describing, and there was no Democrat to second that as a motion, so I think that we showed a lot of restraint there. That was a joke. Anyway.

At least somebody laughed. Thank you very much.

So when it comes to immigration reform, my colleague Congressman Huffman just touched on that, but I would like to expand on that. Immigration reform, will it benefit domestic American employers if a comprehensive immigration reform, for example, we have one on the table that the Senate passed, that version, would it benefit domestic employers?

Mr. ELMENDORF. We didn't study the effect on employers per se, Congressman. We looked at the effects on employment and on output and so on.

Mr. CARDENAS. But people get employed by employers eventually at the end of the day.

Mr. ELMENDORF. So we concluded that relative to the current law, enacting the Senate bill would increase the size of the labor force and employment, would increase average wages in 2025, and later than that would boost the amount of capital investment, raise productivity.

Mr. CARDENAS. Now, is that in just one corner of America, or would that be pretty much in many, many, many, many parts of America?

Mr. ELMENDORF. It would be disproportionately in places that the additional immigrants would come to live and to work, but we didn't try to do an analysis at a regional or metropolitan level.

Mr. CARDENAS. So, for example, it would have a net positive effect based on your numbers in California?

Mr. ELMENDORF. Again, we didn't do estimates for particular States, but it would tend to have—the larger effects would be in places that attracted more immigrants.

Mr. CARDENAS. Well, when you look at the tech industry being large in California and the ag industry being large in California,

I think that your numbers probably, the conclusion of your numbers came from by and large communities like that.

But to my next point, I think a lot of Americans think that a comprehensive immigration reform would only benefit foreign-born individuals should we pass something, for example, like the Senate bill that already passed the Senate but is not getting a hearing in this House. Would it benefit just foreign-born people in this country or would it benefit American-born individuals economically and foreign-born individuals?

Mr. ELMENDORF. So it would only——

Mr. CARDENAS. It is not exclusive to foreign-born individuals?

Mr. ELMENDORF. It is not exclusive to foreign-born individuals. It would benefit some people who would live in this country anyway. We have not done the full analysis, divided among foreign-born individuals and native-born individuals, but the effects would spill over. Some of the effects are negative. As we noted, the unemployment rate would be slightly higher over the next, through 2020, but in the longer run and on average, we think it would be good for people, but the specific effects will differ depending on people's situations.

Mr. CARDENAS. So let me ask the question, then, a little bit more specifically. A comprehensive immigration reform law, like the one that the Senate passed, which I would assume has been analyzed by you and your people, that would only benefit foreign-born individuals in this country?

Mr. ELMENDORF. No.

Mr. CARDENAS. Or it would benefit both foreign born and American born?

Mr. ELMENDORF. It would benefit at least some American, native-born individuals.

Mr. CARDENAS. So the answer is both——

Mr. ELMENDORF. Both groups——

Mr. CARDENAS [continuing]. By and large will benefit.

Mr. ELMENDORF. Both groups will benefit over time, Congressman.

Mr. CARDENAS. Got it. And the reason why I ask that question because I think a lot of people in this country believe that the debate on immigration reform has no net economic effect to Americans, and that is just simply not true.

Another thing that I would like to point out is when it comes to American corporations that have much of their employment overseas, does that have, tend to have a direct benefit to households with incomes of blue collar workers in this country?

Mr. ELMENDORF. Congressman, that is a very hard question. It depends on what the companies do.

Mr. CARDENAS. That is why I said direct. Not indirect, direct.

Mr. ELMENDORF. In some cases—I know, but a full answer from an economist needs to take account of the indirect effects.

Mr. CARDENAS. When an American corporation hires people domestically in this country, does that have a net positive effect on that household that got employed?

Mr. ELMENDORF. Yes, Congressman.

Mr. CARDENAS. Okay, that is my point. Thank you very much.

I yield back my time.

Chairman RYAN. Mr. Woodall.

Mr. WOODALL. Thank you, Mr. Chairman.

I appreciate my colleague's discussion about the immigration. I would say if we reframe that debate instead of asking what is good for immigrants, asking what is good for America, we may end up with the same conclusion either way. I appreciate what Dr. Elmendorf had to say. I am glad the House is doing it in a step-by-step approach. I applaud what the Judiciary Committee is doing, but the question should always be what is good for America, and the answer has always been that a robust immigration policy is good for America.

Mr. CARDENAS. I agree.

Mr. WOODALL. It was mentioned in passing, Dr. Elmendorf, your July 2010 report on about 30 different options for rescuing Social Security from bankruptcy. If we went back and looked at that—I know you may not be prepared to talk about that today—have economic conditions changed in the last 2 years such that that report would need to be updated, or are those numbers still as reliable today as they were 2 years ago?

Mr. ELMENDORF. If we did new estimates today, they would be somewhat different, but I think the broad conclusions, the comparison across estimates, across policy options in that report would still be valid for you.

Mr. WOODALL. What you showed there is not only what the size of that problem is but how absolutely doable it would be by pulling on somewhere between one and four levers that we have to pull on to make those changes today that would take this off the table as a worry for generations to come. They took a big step in a bipartisan way in 1983 to do that. I feel like we have the opportunity in divided government today to do that, and I appreciate the foundational work that you all have done there.

Folks ask me why we are talking about health care in the time of budget deficits and budget crisis, what that connection is. I think of Federal health care costs as being one of the largest drivers of Federal spending long term. Is that the CBO's conclusion?

Mr. ELMENDORF. Yes, that is right. Absolutely, Congressman, yes.

Mr. WOODALL. When we talk about whether the Affordable Care Act is helping or hurting, you have said several times it is a net positive on budget deficits, but I am looking here on page 25 of your report. You may not have it handy, but it is a chart that talks about projected growth in Federal health care spending, and I am looking out over the next 10 years, and you divide major growth into three different categories. You talk about the aging of the population. Obviously, as we get older, we have programs that cover the elderly, that is going to drive health care costs. You talk about excess cost growth. I think that is one of, an economic term for when inflation is higher than ordinary inflation, and what that does to divide——

Mr. ELMENDORF. Spending on health care per person outpaces the growth in spending of GDP.

Mr. WOODALL. But then you talk about the Medicaid expansion and exchange subsidies, and if I am reading this chart right, you are saying that over the next 10 years, health care is already one

of the largest drivers of spending in this country, Federal spending, and you are saying that the Medicaid expansion and exchange subsidies are going to be responsible for 53 percent of the increase over the next 10 years. Am I reading this right?

Mr. ELMENDORF. That is right, Congressman.

Mr. WOODALL. So the connection between budgets and the Affordable Care Act is not only have we identified Federal health care spending as the single largest driver of debt and deficits as we look out over the horizon, but 53 percent, well, actually no, 53 percent of total costs, you are saying that the Affordable Care Act alone is going to double growth in Federal health care programs over the next 10 years?

Mr. ELMENDORF. So, Congressman, this role of this table refers to the insurance coverage expansions of the Affordable Care Act. The Affordable Care Act also includes, as you know, cuts in spending in Medicare and some other programs and increases in tax revenue, so my statements about the overall effect of the Affordable Care Act take account of the coverage expansions and the Medicare spending cuts and the tax increases.

Mr. WOODALL. Absolutely.

Mr. ELMENDORF. This row just has the coverage expansions. The Medicare spending cuts actually place some role on the excess cost growth line but not in a way that we can break out at this point.

Mr. WOODALL. But am I reading that right that if 53 percent of your total projected costs over the next 10 years is associated with the Affordable Care Act, that means in the absence of the Affordable Care Act, Federal health care costs would be half, the growth would be half?

Mr. ELMENDORF. In the absence of the insurance coverage provisions of the Affordable Care Act, but maintaining the Medicare spending reductions in that act, then Federal health care spending would be a great deal——

Mr. WOODALL. So when you talk about the Affordable Care Act as reducing deficits, you are not saying that the laws in the Affordable Care Act, the health care changes are reducing deficits. You are saying because the Affordable Care Act cuts $600 billion out of Medicare, you are saying because the Affordable Care Act raises over a trillion dollars in taxes, you are saying because of all the non- insurance-related things that the Affordable Care Act does, that is why it has an effect, and if we were to do all of those same things irrespective of their merits, we would just bank all of that for deficit reduction rather than spending it on new programs?

I know that is not an economist's question, that is more of a rhetorical question, but I very much appreciate what you have done here, and again your work on Social Security is the foundation that really does offer an opportunity for success in a bipartisan way. I thank you.

Mr. ELMENDORF. Thank you, Congressman.

Chairman RYAN. Mr. Ryan.

Mr. RYAN OF OHIO. Thank you, Chairman Ryan, and I appreciate the opportunity here. The chairman has not had lunch yet, and he is getting a little cranky, so I will try to make this as brief as I can.

Prior to Obamacare—and thank you, sir, for all your great work. Prior to Obamacare, what were our health care costs going up, what percent?

Mr. ELMENDORF. So health care costs have risen, health care costs per person have risen faster than GDP per person for decades in this country. That growth rate has slowed over the past half dozen years or so across the Federal programs and in the private sector as well. The role of the Affordable Care Act in the slowdown we have observed so far is not clear to us. As you know, the Affordable Care Act includes a number of provisions that will slow health cost growth over time.

Mr. RYAN OF OHIO. Right.

Mr. ELMENDORF. Medicare payments, other changes in Medicare, a tax on high-cost insurance, but whether those provisions have mattered a lot so far is hard for us to analyze.

Mr. RYAN OF OHIO. I remember running for Congress in 2002, and the number one issue for businesses and families was health care. Health care costs. I don't know what it is going to be. It keeps going up. This is a major problem. So, you know, we had a problem to solve, and we ended up solving it alone. We didn't have much help from the other side, although we did adopt several of their positions, like the individual mandate. So my question really was to get everybody to recognize that this has been a big problem, and we are now seeing things starting to slow down, and a lot of people who had preexisting conditions and could not get health care are now able to do that. If you had a young kid with cancer, they would not meet their lifetime cap and then get thrown out. They will now be able to get that care. So we have—and look forward to improving this as we go. I don't think it is a perfect health care bill.

I would like to make a couple comments here in the last few minutes. We had one gentleman make a statement about all these huge debt issues, Civil War, World War II, and another point in history, but then forgot to mention the two wars that we put on the credit card that our friends on the other side primarily initiated, a prescription drug bill not paid for, no negotiations in trying to drive down prices. So I just think it is important as we have this discussion to say, well, we have these points in history where the debt ran up and then all of a sudden President Obama got in and, oh, there is this other debt that just came, not looking back into the past decade, and my friend Mr. Rokita, who is a friend, and I like him a lot, was talking about public investments. We can't—the problem we are having today is the whole narrative in Washington, D.C. is every single dollar the government spends is bad, it is bad, it is coming out of the pockets of the private sector, it is stealing, it is confiscating money from private citizens. That fails to recognize over the course of our history as a country the significant public investments that have been made that led to economic growth, and as I was listening to him make his argument, I am thinking about local politics. I am thinking of the City of Youngstown, the City of Akron when they put public money into an industrial park. Public sewers, public roads, public sidewalks, invest in, create an industrial park; private sector comes in, takes risks, makes the investment. But for the investment by the public to say this is where we want to go, that private investment wouldn't have

had a chance to grow, and then those businesses grow over time; same with the interstate highway system, same with NASA. Those huge investments we made in NASA that many people thought were foolish led to telecommunications revolutions and all kinds of other things. Defense spending, you know, the oil coming in and out of the United States ports guarded by a public investment in the United States Navy, hundreds and hundreds of billions of dollars. I mean, these are investments that we make, investments in research and development, like my friend Mr. Yarmuth was talking about, that eventually will lead to growth, and look at what is going on in Silicon Valley because of the investments on the public side.

So I just—I know we have got deficits, you know we have got deficits. We both know we need to curb these in the long term, but we can't sacrifice investments, and right now, we were lucky enough to get President Obama's first additive manufacturing initiative. We have got to continue to invest in that, public-private partnerships, we have got to make sure our schools have three-dimensional printers in them, so that these kids—and Legos and robotics so kids get jazzed up about engineering over the long—public investment, not the be-all-end-all, but this blend, this mix recognizing the complexities of our economy.

Chairman RYAN. Thank you.

Mrs. Blackburn.

Mrs. BLACKBURN. Thank you, sir.

I know you want to say save the best for last, and we women are accustomed to that around here.

Ms. LUJAN GRISHAM. So, thank you.

Mrs. BLACKBURN. Absolutely.

Mr. RYAN OF OHIO. I just want to say I finally have found an agreement with the gentlelady from Tennessee.

Mrs. BLACKBURN. We were at the same briefing that we stepped out of this committee for, and I told her it was a long queue. I want to go back, Mr. Elmendorf—first, thank you, thank you for the report, and I enjoyed glancing through this and looking at the impact that you have on health care expenditures, and I didn't—in looking at your footnotes, I don't see where you pulled data from any domestic programs that may have yielded a window and some insight into what we are up against. You have got TennCare in my State of Tennessee. You have got Guaranteed Issue in New Jersey. You have got RomneyCare in Massachusetts. And did you look at TennCare and the escalation of the cost of that program, the administrative and the beneficiary cost of that program, because it is the closest thing we have got to what Obamacare is? And just for the committee, TennCare was the test case for Hillary Clinton health care back in the mid 1990s in Tennessee, and eventually it became 35.3 percent of the State's budget. It quadrupled in cost after 5 years of implementation, and our Governor, a Democrat Governor, excellent Governor, did a good job, he had to come in and remove 300,000 people from the program and reshape the 1115 waiver program from CMS in order to address this. So did you all pull any evaluated data from that?

Mr. ELMENDORF. So, Congresswoman, I am not personally very knowledgeable about the experience in Tennessee, but when we

have done our estimates over the past several years of the Affordable Care Act, we have drawn on the experience that States have had and that private insurers have had, we have drawn on a very large research literature——

Mrs. BLACKBURN. So you did look at that?

Mr. ELMENDORF [continuing]. In forming our estimates. Yes, Congresswoman.

Mrs. BLACKBURN. Okay. So then that does lead me to believe, as did Mr. Woodall's point, that you are looking at the additional taxes and components, the revenue side to try to make that an affordable program that on its own, it would end up doing what TennCare and other programs did, which is kind of collapse under its own weight.

Mr. ELMENDORF. Well——

Mrs. BLACKBURN. Let me ask you another question. You know, I have two grandsons, a 5-year-old and a 4-year-old, and it is just really painful to me to look at what is happening with our Nation's debt, and the closer we get to that 100 percent of GDP, and I had looked at France's public debt. They are at 91—95.1 percent of their GDP. And they are looking at a tax pause. Have you all taken a look at what is happening with some of these countries and looked at the steps that Congress would have to take if at that point to return our Nation to a path of prosperity how we back away from this debt? Are you looking and making the expectation that the only way we could do that would be higher taxes or increasing existing taxes?

Mr. ELMENDORF. So I think, Congresswoman, that you and your colleagues have a choice of raising taxes substantially, cutting Federal spending substantially or some combination of those two paths.

Mrs. BLACKBURN [continuing]. For cutting the spending.

Mr. ELMENDORF. I understand, Congresswoman, but that is for you to say, not for me, and we are currently producing a large volume of budget options, that is what we do every couple of years, and that volume would include options for both cutting spending and raising taxes.

Mrs. BLACKBURN. Okay. Let's say we do what France does, and they are looking at a 1 percent corporate tax. What kind of effects would that have on the economy?

Mr. ELMENDORF. Congresswoman, I can't do estimates of that sort in my head, and as you know, other countries are starting with very different economic systems, very different levels of taxes and spending, so we would try to learn from other countries' experiences, but it is hard to apply directly to this country because this country is different in a variety of ways.

Mrs. BLACKBURN. Okay, let's talk a minute about sequester. I like the 2 percent across-the-board cut, do not like the cuts on the military, I think they are harmful. However, according to your report, if Congress reverses the sequester cuts, our Nation's debt would reach nearly 190 percent of GDP by 2038. So what do you think we—tell me what you think. Is it safe to say that the sequester cuts are preventing our long-term debt from doubling when you consider if we keep current law and we do not make any changes that our public debt would reach 100 percent of GDP?

Mr. ELMENDORF. So, Congresswoman, the alternative fiscal scenario that you are referring to incorporates a set of changes relative to current law, one of which is taking away the sequestration and going back to the original caps on discretionary funding from the Budget Control Act, but there are also big differences in tax policy and in other aspects of spending policy in that alternative scenario, so I don't know how big the effect would be if the sequester, turning off the sequestration by itself, but certainly it is true that if spending were increased or taxes were cut relative to the current law that underlies these projections and no other changes were made that offset those changes, then the debt would be higher and the problems would be bigger and would arrive faster.

Mrs. BLACKBURN. Okay.

Chairman RYAN. Thank you.

Ms. Lujan Grisham.

Ms. LUJAN GRISHAM. Thank you, Mr. Chairman.

And thank you, Director, for being here. I am actually going to do a couple things. I know most of the questions, quite frankly, have been asked and most of us have been very clear about this report and all of the information that we get about the fiscal condition of the United States and the Federal budget. The deficit and the debt are stark and striking and require us to do something because they are incredibly serious, and I think there isn't a member on this committee who wasn't clear about that from your report and who wasn't clear about that before this report and isn't looking forward to the kind of budget options that we need to undertake.

But I would like to go to two other, two balancing issues, and I am actually, with all due respect to my colleague, Mrs. Blackburn, she is very correct about how she talked about TennCare and its model as States looked at ways to do something different about their Medicaid programs and their populations. The trick for States in that regard is that they did it alone, all right? So there were no, they had no way to impact Medicare. They had no way to impact CMS rules on hospitals and hospital reimbursement. And the problem then is that it can be unsustainable. And so quickly—and there was no partnership on the Medicaid side from the Federal Government to be as robust as it is today to really deal with the growing uninsured population. And so they don't work, or they haven't worked very successfully.

So let's start with that, and actually Tennessee, some of their hospital corporations are in New Mexico and are big supporters of the ACA and Medicaid expansion because those rural hospitals will go belly up in the current path that we are on in health care. So I just want to reassess and make sure that I am getting this right, that the Affordable Care Act expanded coverage has raised some revenue and reduced spending for Medicare.

Mr. ELMENDORF. Yes, Congresswoman.

Ms. LUJAN GRISHAM. And I want to know what that impact of continuing that kind of a balanced approach, where you are reducing and you are raising, has on the Federal deficit over the next 25 years.

Mr. ELMENDORF. All those provisions taken together in the Affordable Care Act, in our estimate, reduced deficits over the next

10 years and beyond in the second decade relative to what would have happened under current, under prior law.

Ms. LUJAN GRISHAM. Perfect. So, given that scenario, and in my State, that has been hugely helpful, and we are expanding Medicaid, we have a Republican Governor, who is doing that. We have the SHOP exchange. We are doing our own State exchange. We have some Federal partnerships, recognizing that that is the kind of balanced approach that we want to a fledgling State budget, an economy arguably that is one of the worst economies in the country with negative job growth. We understand that there is going to have to be some balanced approaches to resolving this problem both in the short term and the long term so that we are affecting the debt and growing the economy so that we can manage those things effectively.

And here, as we are, as many have said, colliding into the debt ceiling and recognizing that we have got a short-term issue that we have got to address, what is the impact on our economy if we weren't to address that and make sure that the full faith and credit of the United States—and I know that you have addressed this several times today, but since it is the issue of the hour, what happens to our economy again if we fail?

Mr. ELMENDORF. So we think that defaulting on any obligation of the U.S. Government will be a dangerous gamble. Economists can't predict exactly what would happen because, fortunately, we don't have a lot of experience with that in this country, but the confidence in the Federal Government paying its bills on a timely basis is the bedrock of our economy and our financial system, meaning both the economy and financial system in this country and the economy and financial system around the world. And if that confidence were broken, then the consequences could be very harmful, and for the financial system, for the flow of credit, for the payments mechanism, for the economy and ultimately for the Federal budget. If interest rates on Federal debt were to be pushed up higher than we think they would rise anyway because of a loss of confidence, that would raise interest payments. And the debt is so large now, and in our projections remains large for indefinitely, then the increased interest rates, given the size of that debt, can be very costly. So if interest rates were about a percentage point higher than we project over the next decade, that would raise interest payments by the Federal Government by about a trillion dollars over the decade.

Ms. LUJAN GRISHAM. And that is also going to have, I would assume, the same kind of effect on small business. And also listening to the sequester comments, I share those, that while we have an obligation and have been cutting the Federal budget and being very clear about our obligation to do that, this sequester then leads to, particularly in the military, an inability to do that innovation and research and have that translate to economic growth in the economy. That predictability, that stability has certainly continued to crush New Mexico and particularly my district in Albuquerque, and I would assume that that is the same issue without a balanced approach.

Mr. ELMENDORF. Congresswoman, as I mentioned a little earlier, nearly half of Federal nondefense discretionary spending rep-

resents investments in physical things like highways, in education and training of people, and in research and development. And if the path of overall discretionary spending and of the defense and nondefense pieces remains as it is in current law, then that will—and that the composition of that spending remains about the same as it has been historically, then Federal investments will decline as a share of GDP in a significant way over the coming decade.

Ms. LUJAN GRISHAM. Thank you.

And thank you, Mr. Chairman, for your latitude. I yield back.

Chairman RYAN. Thank you very much.

Dr. Elmendorf, thank you very much for your testimony. Thank you for this report, for the premium support report, and we will see you this weekend.

Mr. ELMENDORF. Thank you, Mr. Chairman.

Chairman RYAN. Hearing adjourned.

[Question submitted for the record and the response follows:]

QUESTION SUBMITTED FOR THE RECORD FROM HON. ALLYSON Y. SCHWARTZ, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

POTENTIAL TO REDUCE HEALTH CARE COSTS THROUGH DELIVERY SYSTEM REFORM

Republicans and Democrats across the ideological spectrum agree that the current Medicare payment system must be repealed and that the rate of growth in health care spending in the United States is unsustainable. Fixing the Sustainable Growth Rate (SGR), the flawed formula that dictates payments to Medicare providers, is essential to containing the growth of health costs. The long-term fiscal challenges facing our nation cannot be solved without acknowledging and addressing this threat to the sustainability of Medicare.

In March, I reintroduced the bipartisan Medicare Physician Payment Innovation Act (H.R. 574) with Rep. Joe Heck, DO (R-Nev.). This legislation fully repeals the SGR and implements new delivery systems and payment reforms to ensure long-term stability in the Medicare physician payment system, while containing the rising growth in health care costs. My legislation employs the Center for Medicare and Medicaid Innovation (CMMI) in the development of cost-effective payment models that ensure quality patient care.

The House Energy and Commerce Committee advanced its own bipartisan SGR repeal legislation (H.R. 2810) in July. This bill also took steps to advance payment reforms but established a new entity to conduct the testing and evaluation of payment models. CBO scored the House Energy and Commerce proposal at $175 billion over 10 years, which is over $40 billion more than the $139 billion score for permanently freezing physicians' reimbursements at current levels. In the report, CBO notes that "the structure specified by H.R. 2810 would replicate the process being followed by CMMI in many ways * * * [and] would lead to smaller savings."

Dr. Elmendorf, can you explain how taking advantage of the work the Center for Medicare and Medicaid Innovation is already doing in the area of delivery system reform could reduce the cost of an SGR fix?

CBO'S RESPONSE TO QUESTIONS SUBMITTED FOR THE RECORD

Q. Dr. Elmendorf, can you explain how taking advantage of the work the Center for Medicare and Medicaid Innovation is already doing in the area of delivery system reform could reduce the cost of an SGR fix?

A. The Center for Medicare and Medicaid Innovation is charged with testing models that modify rules in the Medicare, Medicaid, and CHIP programs—such as changing Medicare's payment methodologies or expanding the set of services that are covered—to identify and refine models that will reduce program spending without harming the quality of care or improve quality without increasing program spending. The Secretary is authorized to expand models that prove to be successful in achieving those objectives.

Under current law, CBO expects that, in general, the Secretary will use that authority to expand successful models. CBO incorporates the expected savings from the development and expansion of those models in its baseline projections of federal spending for Medicare and the other health care programs. Compared to projections

from before the CMMI provisions were enacted, those expected savings have contributed both to reductions in the projected rate of growth in Medicare spending and to lowering the estimated cost of proposals to replace the Sustainable Growth Rate (SGR) mechanism. However, because the budgetary effects of testing and expanding those models will occur under current law, those effects are not available to be used as offsets to new spending—such as an SGR "fix"—in proposed legislation.

It is possible that the Secretary will decline to expand some CMMI models that reduce program spending and improve quality, despite the expectation that those models could be successfully replicated. In such cases, a provision of legislation requiring expansion of a successful model might offset some or all of the cost of other provisions that increase direct spending.

[Whereupon, at 12:40 p.m., the committee was adjourned.]

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